# UNITED STATES
# POSTAL REGULATORY COMMISSION
**Washington, D.C. 20268-0001**

# FORM 10-K

**(Mark One)**

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended SEPTEMBER 30, 2020

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ____________ to ____________

Commission file number N/A

# UNITED STATES POSTAL SERVICE
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Washington, D.C.** | **41-0760000** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**475 L'Enfant Plaza, S.W.**
**Washington, DC 20260**
**(202) 268-2000**
(Address and telephone number, including area code, of registrant's principal executive offices)

**Securities registered pursuant to Section 12(b) of the Act:** None
**Securities registered pursuant to Section 12(g) of the Act:** None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☑ No ☐

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☐ No ☐ Not Applicable ☑

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐ Not Applicable ☑

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes ☐ No ☐ Not Applicable ☑

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

| | | |
|---|---|---|
| Large accelerated filer ☐ | Accelerated filer ☐ | Non-accelerated filer ☐ |
| Smaller reporting company ☐ | Emerging growth company ☐ | Not Applicable ☑ |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Not applicable | Not applicable | Not applicable |

The aggregate market value of shares of common stock held by non-affiliates as of March 31, 2020: N/A

The number of shares of common stock outstanding as of November 13, 2020: N/A

Documents incorporated by reference: None

**TABLE OF CONTENTS**
**UNITED STATES POSTAL SERVICE**

# PART I

## ITEM 1. BUSINESS

In accordance with the provisions of the *Postal Reorganization Act* ("PRA"), the United States Postal Service ("Postal Service," "USPS," "we," "our" and "us") began operations on July 1, 1971, succeeding the cabinet-level Post Office Department established in 1792. The PRA enacted our status as an "independent establishment of the executive branch of the Government of the United States" with the mandate to offer a "fundamental service" to the nation "at fair and reasonable rates." We do not receive tax dollars for operating expenses and rely solely on the sale of postal products and services to fund our operations.

We serve the American people in all areas of our nation, and, through the universal service obligation, bind our nation together by maintaining and operating our unique, vital and resilient infrastructure. We serve both consumer and commercial customers, in the communications, distribution and delivery, advertising and retail markets throughout the nation and internationally. As a result, we maintain a very diverse customer base and are not dependent upon a single customer or small group of customers. No single customer represented more than 7.5%, 6.0% and 6.0% of operating revenue for the years ended September 30, 2020, 2019 and 2018, respectively.

As an independent establishment of the executive branch, we align specific objectives with those of the U.S. government. We are subject to numerous federal, state and local regulatory and reporting laws, including environmental laws and regulations. Our governing statute is codified in Title 39 of the U.S. Code. The *Postal Accountability and Enhancement Act of 2006, Public Law 109-435* ("PAEA") made revisions to the PRA and established the Postal Regulatory Commission ("PRC"), endowing it with regulatory and oversight responsibilities. Although PAEA divides our services into Market-Dominant and Competitive products, we monitor and report revenue by mail classes, and report our performance as a single business. We do not operate in segments.

To provide reliable, efficient, trusted, and affordable universal delivery service, we have established the following four strategic areas of focus:

- Deliver a World-Class Customer Experience;
- Equip, Empower, Connect and Engage Employees;
- Innovate Faster to Deliver Value; and
- Invest in our Future Platforms.

We operate and manage an extensive and integrated retail, processing, distribution, transportation and delivery network throughout the U.S., including its possessions and territories. We retain the largest physical and logistical infrastructure of any non-military government institution, providing an indispensable foundation supporting an ever changing and evolving nationwide communication network. As such, we continue to support and expand the nation’s physical infrastructure, and are vital to our nation’s growth and prosperity.

We continue to play an indispensable role as a driver of commerce and as a provider of delivery services that connect Americans to one another - reliably, affordably, and securely - and to every residential and business address.

Our leadership has established the following objectives as they define a positive future for the Postal Service:

- Universal access to the digital economy with enhanced destination and store front services across the nation;
- The most professional, efficient, trusted and visible delivery services in the marketplace - driven by significantly greater operational precision;
- A winning culture - that champions employee advancement, engagement and collaboration; and celebrates diversity and inclusion;
- Innovative, cost-effective platforms to power business customer growth; and
- Greater revenue diversity, revenue growth, and financial sustainability.

To address our urgent financial challenges, to change and improve the organization, and to bring greater value to the public and the nation, we are committed to working collaboratively with stakeholders including Congress, the Administration, our regulators, customers, unions, and the public who depend every day on our essential and indispensable role.

As used herein, all references to years in this report, unless otherwise stated, refer to fiscal years beginning October 1 and ending September 30. All references to quarters, unless otherwise stated, refer to fiscal quarters.

**COVID-19**

In March 2020, the World Health Organization ("WHO") declared a novel strain of coronavirus (“COVID-19”) a global pandemic, and the virus has since spread throughout the U.S.

Given our mandate to provide universal postal services to the nation, we provide an essential service as part of the nation’s critical infrastructure and have continued to process and deliver mail and packages during the pandemic. We serve an imperative role in the U.S. economy as at least six days per week, and in some instances seven, our employees accept, process, transport, and deliver vital mail and packages like medicine, fundamental consumer staples, benefits checks, and important information.

The importance of the mail continues to grow during the pandemic as our customers, including those in rural areas and senior citizens, need access to vital communications, crucial packages and other necessities. As a testament to this, we recently received the highest ranking in the *Harris Poll Essential 100* reflecting the public’s perception of our COVID-19 response, demonstrating our commitment to serving the nation during this challenging time.

All of our employees are considered essential, and their safety is our highest priority. Following strategies recommended by the Centers for Disease Control and Prevention ("CDC"), we have continued to implement enhanced safety measures to protect the health of our employees. These measures include restrictions on business travel, the implementation of remote work arrangements for certain of our office-based employees, and liberal leave policies for employees who may be affected by illness, quarantines or childcare obligations. We have also invested in various safety measures in response to the pandemic. These policies, while costly, have not materially affected our ability to maintain our business operations, including the operation of financial reporting systems, internal control over financial reporting, and disclosure controls and procedures.

Aside from employee availability, imposed shelter-in-place orders that affected some of our customers prevented normal retail operations. A number of our retail offices and alternate access offices experienced decreased walk-in traffic. The location and operating hours of impacted offices fluctuated based on local conditions and circumstances, even as the overall number of impacted offices eventually stabilized.

As the pandemic proliferated throughout the country, our contracted resources were also negatively affected, including surface and air contracted transportation. Highway Contract Route drivers, who are contracted to provide highway transportation of mail, recorded hundreds of contract failures daily, with some districts experiencing failures for extended periods.

On March 27, 2020, the President signed the *Coronavirus Aid, Relief, and Economic Security Act*, enacted as Public Law 116-136 (the “*CARES Act*”). Notwithstanding our $15.0 billion statutory debt limit, and $3.0 billion annual limit on net new borrowings, the *CARES Act* allows us to borrow up to an additional $10.0 billion in financing from the U.S. Treasury to fund operating expenses. The U.S. Treasury may lend up to this amount at our request, upon terms and conditions mutually agreed upon. On July 29, 2020, we announced that we had reached an agreement in principle with the U.S. Treasury on the terms and conditions associated with the *CARES Act* financing. The agreed-upon terms and conditions must be memorialized in loan documents and satisfied before we will have access to the *CARES Act* borrowing, as limited by such terms and conditions.

For additional information, see *Item 1A. Risk Factors* and *Item 7. Management's Discussion of Financial Condition and Results of Operations*, *Results of Operations*.

## GOVERNANCE

The law stipulates an eleven-member Board of Governors ("Board") which generally consists of our Postmaster General, Deputy Postmaster General and nine independent governors ("Governors"). The Governors are appointed by the President of the United States ("President") with the advice and consent of the United States Senate ("Senate"). The Postmaster General is appointed by the Governors, and the Deputy Postmaster General is appointed by the Governors and the Postmaster General.

We currently have seven sitting Board members (six Governors and the Postmaster General), three open Governor seats, and a vacancy in the Deputy Postmaster General position.

The Audit and Finance Committee of the Board ("Audit Committee") provides oversight of our financial statement preparation, system of internal controls, cybersecurity, financial reporting process, compliance with applicable laws and regulations and audit process.

The Compensation and Governance Committee is responsible for the initial review of management proposals related to compensation and benefits for the officers. The Compensation and Governance Committee makes recommendations to the full Board for its review and approval.

The Operations Committee provides guidance to the Board on management's plans to improve the efficiency of retail, delivery, and processing operations, and of on-time service performance. The Operations Committee makes recommendations to the full Board for its review and approval.

The Strategy and Innovation Committee of the Board provides guidance on our strategic direction, regulatory requirements and filings, and on the identification of innovative practices and technologies to help us better carry out our mission. The Strategy and Innovation Committee makes recommendations to the full Board for its review and approval.

The Communications Committee, a special, time-limited committee, uses its oversight role to improve coordination between the Governors, Postmaster General, and senior executives concerning external and internal communications pertaining to the Board.

The Election Mail Committee, a special committee formed for the 2020 general election cycle, uses its oversight role to reinforce our strong commitment to the mail as an important part of the nation's democratic process, and will regularly monitor execution of our work on Election Mail to ensure that our part of this election process is implemented in the most effective way possible.

## SERVICES

We fulfill our legal mandate to provide universal services at fair and reasonable prices by offering a variety of postal services to our many customers. Our Governors approve our prices and fees, subject to a review process by the PRC.

Services are sold by approximately 31,000 Postal Service-managed Post Offices, stations and branches, plus approximately 3,100 additional Contract Postal Units, Community Post Offices, Village Post Offices, and a large network of commercial outlets which sell stamps and services on our behalf and through our website *www.usps.com*. Mail deliveries are made to 161 million city, rural, *PO Box* and highway delivery points. Our operations are conducted in the domestic market, although we engage with foreign postal administrations to enable customers to both send and receive mail internationally. Our international revenue represents approximately 3% of our operating revenue for the year ended September 30, 2020.

### *CLASSIFICATION AND PRICING*

We offer two categories of services, which are classified by the PAEA as Market-Dominant and Competitive "products." However, throughout this report, we use the term "services" for consistency with other descriptions of services we offer.

Periodic reclassification of services from Market-Dominant to Competitive, which requires PRC approval, is necessary to rationalize service offerings. The additional flexibility provided in Competitive services allows us to better offer services to meet customer needs, increase our business and price our services competitively within the markets in which we operate. Information regarding PRC decisions and pending dockets may be obtained on the PRC website: *www.prc.gov*.

**Market-Dominant Services**

Market-Dominant services account for approximately 58% of our annual operating revenues. In previous years, Market-Dominant services accounted for approximately 66% or more of our annual operating revenues, although the COVID-19 pandemic has resulted in significant shifts in demand during 2020. Market-Dominant services include, but are not limited to, *First-Class Mail*, *Marketing Mail*, *Periodicals,* some types of International Mail and certain parcel services. Price increases for these services are currently generally subject to a price cap based on the Consumer Price Index for All Urban Consumers ("CPI-U"). Our Governors establish the prices for Market-Dominant services, subject to a review process by the PRC for compliance with the applicable law, including a price cap.

We implemented price increases on certain Market-Dominant services that averaged 1.9% in January 2020, 2.5% in January 2019, and 1.9% in January 2018. On October 9, 2020, we filed with the PRC a notice of our intent to increase prices for certain Market-Dominant services by an average of 1.7%. As of the date of this report, the PRC has not completed its review of this price increase plan.

For additional information on our upcoming and recent price increases, see *Part II*, *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations*, *Liquidity and Capital Resources*, *Cash Flow Analysis*, *Price Increases*.

**Competitive Services**

Competitive services, such as *Priority Mail*, *Priority Mail Express*, *First-Class Package Service*, *Parcel Select* and *Parcel Return Service* and some types of International Mail, have greater pricing flexibility and are not limited by a price cap. Prices for Competitive services are set by our Governors and reviewed by the PRC for legal compliance. By law, prices for each Competitive service must cover "attributable costs" (meaning the Postal Service's costs attributable to such product through reliably identified causal relationships), and Competitive services collectively must contribute an appropriate share to the institutional costs of the Postal Service, currently 8.8%, as determined by the PRC. In general, we attempt to set our prices for Competitive Services at rates that maximize revenue.

The PAEA prohibits the subsidization of Competitive services costs by Market-Dominant services revenue. The PRC reviews our price increase notices, and we are diligent to ensure that each Competitive service covers its attributable costs and that Competitive services collectively contribute an appropriate share of institutional costs.

We implemented price increases on certain Competitive services in January 2020, January 2019 and January 2018, and the average price increases varied by Competitive services product. In June 2019, we implemented dimensional weighting provisions that amounted to price increases for certain Shipping and Packages subcategories. On July 1, 2020, we implemented our new self-declared rates remuneration system, which effectively increased prices on our Competitive services International Mail category. On September 4, 2020, the PRC approved our plan to temporarily increase prices on certain Shipping and Packages subcategories on a time-limited basis. These increased prices will be effective October 18, 2020, through December 27, 2020, after which prices will revert to the 2020 pricing schedule.

### *SERVICE CATEGORIES*

Although we do not operate in segments and report our performance as a single business, we monitor and report revenue by mail classes, products and shapes. Management uses the following broad service categories to describe and report on our performance:

- **First-Class Mail** - This category encompasses letters, cards or large envelopes destined for either domestic (up to 13 ounces) or international (up to 4 pounds) delivery. *First-Class Mail* letters include postcards, correspondence, bills or statements of account, and payments.

- **Marketing Mail** - This category includes advertisements and marketing packages, weighing less than 16 ounces, and meeting the criteria of not being required to be mailed using *First-Class Mail* services because of the content. *Marketing Mail* is typically used for direct advertising to multiple delivery addresses. *Every Door Direct Mail* enables customers to prepare direct mailings without names and addresses for distribution to all business and residential customers on individual carrier routes.

- **Shipping and Packages** - This category includes *First-Class Package Service - Commercial*, a shipping option for high-volume shippers of packages that weigh less than one pound and *First-Class Package Service - Retail*, for shipment of boxes, thick envelopes or tubes of 13 ounces or less; *Package Services* for merchandise or printed matter, such as library and media mail weighing up to 70 pounds; Parcel Services - *Parcel Select and Parcel Return* services, including "last-mile" products, and *USPS Marketing Mail Parcels* which provide commercial customers with a means of package shipment; *Priority Mail*, which is offered as a service both within the U.S. and abroad with the domestic, day-specified (non-guaranteed) delivery; and *Priority Mail Express*, which provides an overnight to 2 day delivery with money-back guaranteed service including tracking, proof of delivery and basic insurance up to $100. *Priority Mail Express* delivery is offered to most U.S. destinations for delivery 365 days a year.

- **International Mail** - This category offers international mail and shipping services with individual customer contracts and agreements with foreign postal administrations. *Priority Mail Express International* and *Priority Mail International* services compete in the e-commerce cross-border business. These services provide an option for our consumer and business customers for much of their shipping needs to more than 190 countries. *Global Express Guaranteed* is the premier international shipping option that offers delivery to major markets.

- **Periodicals** - This category encompasses the *Periodicals* class of mail offered for newspaper, magazine and newsletter distribution. Customers must receive prior authorization from us to use this service.

- **Other** - This broad category includes *PO Box* services, money orders and USPS extra services. *PO Box* services provide customers an additional method for mail delivery that is private and convenient. Money orders offer customers a safe, convenient and economical method for the remittance of payments. Money orders are available for amounts up to $1,000, can be purchased and cashed at most Post Offices, or can be deposited or negotiated at financial institutions. USPS Extra Services offer a variety of service enhancements that provide security, proof of delivery or loss recovery. These services include: *Certified Mail*, *Registered Mail*, *Signature Confirmation*, *Adult Signature* and insurance up to $5,000 and are available online, at Post Offices or at USPS Self-Service Kiosks.

For a discussion of economic and other factors affecting the volume of these services and our actions taken to address these factors, see *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations*, *Results of Operations*, *Operating Revenue and Volume*.

## RESEARCH AND DEVELOPMENT

We operate a research and development facility in Virginia for the design, development and testing of postal equipment and operating systems. We also contract with independent suppliers to conduct research activities. While research and development activities are important to our business, these expenditures are immaterial to our results of operations or financial position.

## INTELLECTUAL PROPERTY

We own intellectual property that includes trademarks, service marks, patents, copyrights, trade secrets and other proprietary information and routinely generate intellectual property in the course of developing and improving systems, services and operations.

## MARKETING

Our marketing program seeks to capitalize on innovation, technology and data management, including our existing relationships with the mailing industry and our reputation based on our service delivery performance every day. We continue to adjust to changes in customer behaviors and demands to make accessing and using our services more convenient. We have developed innovative mobile applications which enable customers to locate a Post Office, find a ZIP Code, track packages and shop online.

Online service offerings available through *www.usps.com* have also enhanced the customer experience by providing customer-focused applications and services. Included in online services is *Informed Delivery*, which enables customers to digitally preview mail and manage package delivery. We continue to enhance *Informed Delivery* so that businesses may incorporate marketing campaigns and reinforce the value of the printed mailpiece.

Our marketing approach highlights the value that we offer to customers, including our enhanced digital technologies and the linkages between digital and physical communications. Additionally, we seek to leverage our brand through the use of media advertising, trade shows, technical seminars and direct mailings.

## COMPETITION

We compete for our business in many different markets. A wide variety of communications media compete for the same types of transactions and communications that are conducted using our services. These channels include, but are not limited to, newspapers, telecommunications, television, email, social networking and electronic funds transfers. The package and express delivery businesses are highly competitive, with both national and local competitors.

The most significant competitive factor for *First-Class Mail* is digital communication, including electronic mail, as well as other digital technologies such as online bill payment and presentment. For *Marketing Mail*, digital forms of advertising including digital mobile advertising and social media are the most significant forms of competition.

The primary competitors of our Shipping and Packages services are FedEx Corporation, United Parcel Service, Inc., and Amazon.com Inc., as well as other national, regional and local delivery companies and crowdsourced carriers who are testing and implementing "last mile" delivery services. Our Shipping and Packages business competes on the basis of the breadth of our service network, convenience, reliability and economy of the service provided.

For the years ended September 30, 2020, 2019 and 2018, combined revenue from our three largest customers (excluding mail service providers) represented approximately 10.5%, 8.5% and 8.3% of operating revenue, respectively. The growth in our Competitive service revenues in recent years is largely attributable to these three customers. However, several of our top customers continue to expand delivery capability enabling them to divert volume away from us.

## SEASONALITY

Total revenue and volume for all service categories are historically greatest in the first quarter of our fiscal year, which includes the holiday mailing and shipping season, and lowest in the third and fourth fiscal quarters during the spring and summer. In general election years, *Marketing Mail* benefits from strong political and election mail volumes, especially during presidential and congressional election cycles.

While Shipping and Packages normally experiences its highest volume during our first quarter each year, in 2020, the surge in e-commerce due to the COVID-19 pandemic resulted in much higher volumes during each of our third and fourth fiscal quarters than during our first quarter. While this surge may subside as the economy reopens, we believe that e-commerce will remain increasingly popular with consumers, which will sustain elevated demand into the future for our Shipping and Packages services compared to prior years. We therefore expect our previous Shipping and Packages seasonal trends to resume after the pandemic fully subsides.

## EMPLOYEES

Because the Postal Service provides its services primarily through its employees, managing our workforce is an important part of our business.

At September 30, 2020, we employed approximately 496,000 career employees and approximately 148,000 non-career employees, substantially all of whom reside in the U.S. Career employees are considered permanent and are entitled to a full range of benefits (e.g., health and retirement) and privileges, while non-career employees are considered temporary and do not receive full employee benefits and privileges

As dictated by our operational needs and contractual provisions, we convert employees from non-career status to career status. Although career employees are more costly than non-career, converted employees often represent a significant savings relative to the career employees they replace who are compensated on a higher wage scale. During 2020, we converted approximately 41,000 employees in order to offset attrition of career employees, primarily through retirement.

For a more detailed discussion of items that impact our employees, see *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations*, *Results of Operations*, *Operating Expenses*.

The following are human capital objectives and measures we focus on in managing our business and attracting, developing and retaining employees.

### *EMPLOYEE SAFETY*

Employee safety is a top priority for us. Prevention is the guiding principle for both occupational safety and health-related legislation. To avoid accidents and occupational diseases, we have adopted standard requirements for safety and health protection at the workplace and have established compliance protocols to ensure effective implementation.

We measure safety performance by using a total accident rate metric, which is calculated as the total number of accidents for the year, multiplied by 2,000 (the approximate number of annual work hours per employee), multiplied by 100. This number is then divided by the annual number of exposure hours. In 2020, the total accident rate was 13.09, with the total accident count decreasing more than 10% and total motor vehicle accidents decreasing more than 9%, compared to 2019.

### *EMPLOYEE ENGAGEMENT*

We aim to provide employees with an engaged workplace, one in which teams, individuals, and leaders thrive and perform at high levels. To measure the level of engagement, we administer the Postal Pulse survey. This survey instrument developed by Gallup, Inc. is administered annually to all employees. Postal Pulse results identify a grand mean score, along with the survey response rates, which serve as the corporate measure of progress.

### *EMPLOYEE DIVERSITY*

We define diversity as the richness of cultures, perspectives, experiences, and backgrounds, and we recognize the value of a diverse workforce. We are one of the leading employers of minorities, women and veterans, at all levels of our organization. At September 30, 2020 minorities, women and veterans represented approximately 49%, 46% and 11% of our total workforce, respectively, and 35%, 36% and 11% of our senior management, respectively.

### *BARGAINING AGREEMENTS*

As of September 30, 2020, approximately 90% of employees were covered by collective bargaining agreements. These agreements include provisions governing work rules and provide for general wage increases, step increases and cost of living adjustments ("COLA"), which are linked to the Consumer Price Index – Urban Wage Earners and Clerical Workers ("CPI-W"), as well as provisions that limit our ability to reduce the size of the labor force and restrict the number of non-career employees. Our labor force is primarily represented by the American Postal Workers Union, AFL-CIO ("APWU"); the National Association of Letter Carriers, AFL-CIO ("NALC"); the National Postal Mail Handlers Union, AFL-CIO ("NPMHU") and the National Rural Letter Carriers Association ("NRLCA").

By law, we must consult with management organizations representing most of our employees not covered by collective bargaining agreements. These consultations provide non-bargaining unit employees in the field with an opportunity to participate in the planning, development and implementation of certain programs and policies that affect them.

In May 2019, we reached a tentative agreement with the NRLCA on a new three-year collective bargaining agreement, which the union membership ratified in August 2019. The contract includes modest general wage increases over the life of the agreement with a COLA base month of April 2018, a reduction in our share of health insurance premiums, and enhanced benefits for non-career rural employees. The new contract will expire on May 20, 2021.

In January 2020, we reached a tentative agreement with the NPMHU on a new three-year collective bargaining agreement, which the union membership ratified in April 2020. The contract includes modest general wage increases over the life of the agreement with a COLA base month of July 2019, a reduction in our share of health insurance premiums, increased flexibility to use mail handler assistant employees, elimination of non-career casual employees, and enhanced benefits for non-career mail handler assistant employees. The new contract went into effect on April 25, 2020, and will expire on September 20, 2022.

In March 2020, a three-member arbitration panel reached a decision in our legally mandated binding interest arbitration process with the APWU, establishing the terms of a new collective bargaining agreement. The contract includes modest general wage increases over the life of the agreement with a COLA base month of July 2018, a reduction in our share of health insurance premiums, and wage improvements for postal support employees. The new contract went into effect on March 10, 2020, and will expire on September 20, 2021.

In September 2019, we agreed to extend contract negotiations relating to a new collective bargaining agreement with the NALC. The previous contract with the NALC expired on September 20, 2019, and negotiations with the NALC are at an impasse. The parties bypassed mediation and interest arbitration in front of a tripartite panel began on September 23, 2020. The parties will continue to follow the current agreement until a new contract is reached through the interest arbitration process.

### *FEDERAL EMPLOYEE AND RETIREMENT BENEFIT PROGRAMS*

We are required to participate in U.S. government benefits programs for healthcare, retirement and workers' compensation. We have no control or influence over the benefits offered by these plans and our contributions to these plans are required as specified by contractual agreements with our employee unions (in the case of health benefits for most active employees) or by law (in the case of retirement benefits).

#### Health Benefits

Our health benefit obligations consist of contributions to the Federal Employees Health Benefit ("FEHB") program, administered by the Office of Personnel Management ("OPM") for both active and retired employees. Separate from FEHB, we also offer our own self-insured healthcare plan to certain active non-career employees who are ineligible for FEHB.

For our active employees, we covered approximately 72.0%, 72.0% and 72.8% of healthcare premiums, totaling $5.2 billion, $5.1 billion, and $5.2 billion, for the years ended September 30, 2020, 2019 and 2018, respectively. For each of these years, we made all required payments for healthcare premiums for active employees.

In 2006, the PAEA established the Postal Service Retiree Health Benefits Fund ("PSRHBF") and required us to fully prefund retiree health benefits, a requirement not imposed on most other federal entities or private-sector businesses that offer such benefits. This prefunding requirement has contributed significantly to our losses and represents a significant portion of our unpaid obligations.

Between 2007 and 2016, we were required to make payments to OPM for our share of healthcare premiums for retired employees while also contributing to the PSRHBF by paying annual amounts that were statutorily set ranging from $1.4 billion to $5.8 billion, totaling $54.8 billion. We contributed $20.9 billion to the PSRHBF and defaulted on additional statutory prefunding amounts totaling $33.9 billion for the years 2012 through 2016.

Since 2017, our share of healthcare premiums for retired employees has been paid by the PSRHBF. Instead of payments for the premiums, we are required to make two annual contributions to the PSRHBF:

1. The "normal cost" of retiree health benefits, representing the present value of the estimated retiree health benefits attributable to active employees' current year of service into the PSRHBF; and
2. An amortization payment of our unfunded liability, representing an amount calculated by OPM to ensure that our retiree health benefits obligations are fully funded by 2056. OPM's calculation reduces the unfunded liability by any obligations due, prior to creating the payment schedule.

In order to preserve liquidity and to ensure that our ability to fulfill our primary universal service mission was not placed at undue risk, we have not made any of the required payments for retiree health benefit normal cost or PSRHBF amortization. As of the date of this report, we have not incurred any penalties or negative financial consequences as a result of not making these payments.

**Retirement Benefits**

Our retirement plan obligations consist of contributions to the Civil Service Retirement System ("CSRS") and the Federal Employees Retirement System ("FERS"), as well as contributions to the Thrift Savings Plan ("TSP") contributions and Social Security benefits.

CSRS is a defined benefit plan, administered by OPM. Our CSRS contributions consist of only an amortization payment of our unfunded liability, representing an amount calculated by OPM to ensure that our CSRS retirement obligations are fully funded by 2043.

FERS is a defined benefit plan, administered by OPM. Our FERS contributions consist of two parts:

1. FERS normal costs, representing the amount established by OPM as the employer portion of retirement benefits attributable to active employees' current year of service; and
2. An amortization payment of our unfunded liability, representing an amount calculated by OPM to ensure that our FERS retirement obligations are fully funded within the next 30 years (on a rolling period basis).

In order to preserve liquidity and to ensure that our ability to fulfill our primary universal service mission was not placed at undue risk, we have not made any of the required payments for FERS or CSRS amortization. As of the date of this report, we have not incurred any penalties or negative financial consequences as a result of not making these payments.

TSP is a defined contribution plan, administered by the Federal Retirement Thrift Savings Investment Board. Our TSP contributions include an automatic 1% contribution of basic pay, a 100% match of the first 3% of basic pay, and a 50% match of the next 2% of basic pay.

Social Security benefits are contributed at 6.2% of compensation as required by statute. However, these rates apply to earnings up to a maximum amount, as established by statute, with maximum benefit bases of $137,700, $132,900 and $128,400 for the years ended September 30, 2020, 2019, and 2018, respectively.

We made all required payments for FERS normal cost, the employer portion of TSP contributions and Social Security benefits. However, the *CARES Act* offers certain employers the ability to defer payment of the employer’s share of the Social Security payroll tax on wages incurred from March 27, 2020, through December 31, 2020. In accordance with this provision, we began deferring these payments in April 2020, and intend to continue the deferral for the remainder of calendar year 2020. One half of these deferred payments would be due by December 31, 2021, and the other half by December 31, 2022. As of September 30, 2020, we had deferred approximately $1.2 billion. This amount is recorded within *Other noncurrent liabilities* in the accompanying *Balance Sheets*.

**Past Due Obligations**

The following table presents the total retiree health benefits, CSRS and FERS amounts unpaid as of September 30, 2020, and the fiscal years in which the accruals were recorded:

| *(in millions)* | 2020 | 2019 | 2018 | 2012 to 2017 | Total |
|---|---|---|---|---|---|
| PSRHBF prefunding fixed amount | $ — | $ — | $ — | $ 33,900 | $ 33,900 |
| PSRHBF unfunded benefits amortization | 810 | 789 | 815 | 955 | 3,369 |
| Normal cost of retiree health benefits | 3,850 | 3,775 | 3,666 | 3,305 | 14,596 |
| CSRS unfunded retirement benefits amortization | 1,817 | 1,617 | 1,440 | 1,741 | 6,615 |
| FERS unfunded retirement benefits amortization | 1,343 | 1,060 | 958 | 1,412 | 4,773 |
| **Total expenses accrued but unpaid** | **$ 7,820** | **$ 7,241** | **$ 6,879** | **$ 41,313** | **$ 63,253** |

**Workers' Compensation**

We are legally mandated to participate in the federal workers' compensation program that is administered by the Department of Labor's ("DOL") Office of Workers' Compensation Programs ("OWCP") and governed by the *Federal Employees' Compensation Act* ("FECA"). DOL makes payments to, or on behalf, of our employees for all workers' compensation benefits. Annually, we reimburse DOL these payments with total reimbursements of approximately $1.3 billion, $1.3 billion and $1.4 billion, for the years ended September 30, 2020, 2019, and 2018, respectively.

## OVERSIGHT AND REGULATION

As discussed throughout this report, we are subject to oversight by the United States Congress ("Congress") and regulation by the PRC and certain other government agencies. In addition to Senate confirmation of our Governors, Congress significantly influences how we conduct our business and operations through passage of laws. For example, unless and until new laws become effective, we are legally bound by annual *Financial Services and General Government* appropriations legislation, which is part of the larger U.S. government's budget and spending process each fiscal year for specific U.S. government departments, agencies and programs. Among other restrictions, such legislation requires us to maintain a six-day delivery schedule and also precludes us from closing any small Post Office solely for operating at a deficit, so that postal services may be offered to residents of both urban and rural communities. We are also bound by Postal Service-specific legislation, such as the PAEA, which impacts our financial performance and restricts our competitiveness by limiting our ability to grow our business, price our services and constrain our expenses. For a more detailed explanation, see *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations*, *Legislative Update*.

### *REGULATORY MATTERS*

Although we are required to comply with various federal, state or local laws and regulations concerning numerous matters, including environmental matters, none of these have had a material impact on our financial results or competitive position, or resulted in material capital expenditures. However, the effect of possible future legislation or regulations on operations cannot be predicted. New laws or regulations, such as the regulation of greenhouse gas emissions into the environment may increase our operating costs, including the cost of fuel, and the potential costs of compliance with any such new laws or regulations.

On October 24, 2018, the President signed into law H.R. 6 (P.L. 115-271), the *SUPPORT for Patients and Communities Act*, a package of bills designed to address the opioid epidemic. The bill includes the *STOP Act,* which requires us to arrange to transmit advance electronic data ("AED") to the U.S. Customs and Border Protection ("CBP") on at least 70% of aggregate inbound International Mail shipments, including 100% of shipments from the People's Republic of China, by December 31, 2018, and 100% of aggregate inbound mail shipments by December 31, 2020. Civil penalties may apply if shipments are accepted without AED, although CBP may reduce or dismiss such penalties if it determines that we have low error rates, are cooperating with CBP, or have taken remedial action to prevent future violations. Additionally, under the *STOP Act*, a new $1 customs fee is required on each international U.S.-bound Express Mail Service item, effective January 1, 2020. The amount of that $1 fee may be adjusted up to once a year starting in fiscal year 2021.

### *REGULATORY REPORTING*

We are not a reporting company under the *Securities Exchange Act of 1934*, as amended ("Exchange Act"), and are not subject to regulation by the Securities and Exchange Commission ("SEC"). However, the PAEA requires us to file with the PRC certain financial reports containing information prescribed by the SEC under Sections 13 or 15(d) of the Exchange Act. These reports include annual reports on Form 10-K ("Annual Report"), quarterly reports on Form 10-Q ("Quarterly Report") and current reports on Form 8-K.

We are also required by law and regulations to disclose operational and financial information beyond what the law requires of most U.S. government entities and private-sector companies. Pursuant to Title 39 of the U.S. Code and PRC regulations, we must also file additional information with the PRC, including Cost and Revenue Analysis reports; Revenue, Pieces and Weight reports; financial and strategic plans and the *Annual Report to Congress*.

All of these reports may be found online at *about.usps.com/what/financials*, free of charge, as soon as reasonably practicable after we file them with the PRC. Information on our website is not incorporated by reference into this report. Requests for copies of our reports may also be sent to the following address: Corporate Communications, United States Postal Service, 475 L'Enfant Plaza, SW, Washington, DC 20260-3100.

## ITEM 1A. RISK FACTORS

We are subject to various risks and uncertainties that could adversely affect our business, financial condition, results of operations and cash flows. In addition to the material risks and uncertainties that are described below, others that we do not yet know of or that we currently believe are immaterial could arise or become material and may also impair our business.

### OPERATIONAL AND MARKET RISK FACTORS

***The COVID-19 pandemic has had a material and adverse effect on certain aspects of our business operations, financial condition and results of operations. Given the uncertainty of the COVID-19 pandemic, adverse U.S. and global economic conditions may continue to directly impact our business and negatively affect results of operations. We will continue to be at risk of another global pandemic or other adverse public health developments in the future.***

The demand for each of our services is heavily influenced by economic factors. Adverse economic conditions could negatively affect our business and results of operations, primarily through disrupting our customers' businesses. To the extent that the U.S. and other countries experience slow or negative economic growth, our business, financial position and results of operations may be adversely impacted.

In March 2020, the World Health Organization declared COVID-19 a global pandemic, which has since spread throughout the U.S. Given our mandate to provide universal postal services to the nation, we provide an essential service and have continued to process and deliver mail and packages during the pandemic. The COVID-19 pandemic has and will likely continue to have a material effect on certain of our results of operations.

The pandemic has had a severe impact on the global economy. Quarantines, shelter-in-place orders, and travel and logistics restrictions in connection with the outbreak have affected our consumer and commercial customers, as well as suppliers and mail service providers. Many of our customers rely heavily on in-person retail sales and have experienced weaker demand. This has exposed us to certain financial risks as many of these customers have had to curtail or suspend their business with us, and some of this revenue may never return.

While certain of our customers have experienced a decrease in their business, others that benefit from the surge in e-commerce have caused us to refocus how we meet this shift in demand. Although we have been successful to date in adjusting our operations to meet the changing needs of our customers, we may not be able to continuously maintain such operational adjustments as the economy and the demand for our different services continues to rapidly evolve.

The pandemic severely affected the commercial airline industry, which we depend on to fulfill our transportation needs for certain of our services. Because of the significant reduction in commercial flights available to meet our transportation needs, we have been forced to use alternative modes of transportation, including charter flights and highway contract routes, which has and may continue to significantly affect our transportation costs or disrupt our processing and delivery schedules. Although the commercial airline industry has begun to recover since the beginning of the pandemic, we continue to be at risk of either incurring much higher costs necessary to transport our mailpieces and/or not meeting our service standards for on-time delivery.

The pandemic has also affected our employees. The nature of our business in many cases requires the exposure of our employees to other people and provides limited opportunity for social distancing. We have implemented measures to protect the health and safety of our employees, including restrictions on business travel, the implementation of remote work arrangements for certain of our office-based employees, and liberal leave policies for employees who may be affected by illness, quarantines or childcare obligations.

While the COVID-19 pandemic has directly impacted our financial results, it may also heighten many of the other risks described in this section, any of which could have an adverse impact on our results of operations and financial position.

***Our business and results of operations are significantly affected by competition from both competitors in the delivery marketplace as well as substitute products and digital communication. If we do not compete effectively, operate efficiently and increase revenue and contribution from other sources, this adverse impact will become more substantial over time.***

Our marketplace competitors include both local and national providers of package delivery services. Our competitors have different cost structures and fewer regulatory restrictions than we do and are able to offer differing services and pricing, which may hinder our ability to remain competitive in these service areas. In addition, some of our competitors have broader access to public capital markets, which allows them greater freedom in their financing and expansion of their business.

Customer usage of postal services continues to shift to substitute products and digital communication, a trend that has been further exacerbated by the COVID-19 pandemic as more businesses have had to operate remotely due to quarantines, shelter-in-place orders and travel restrictions. However, given the uncertainty of the COVID-19 pandemic, the long-term impact on these shifts is uncertain. *First-Class Mail*, such as the presentment and payment of bills, has been eroded by competition from electronic media, driven by some of our major commercial mailers which actively promote the use of online services. *Marketing Mail* has recently experienced declines due to mailers' growing use of digital advertising including digital mobile advertising. The volume of our *Periodicals* service continues to decline as consumers increasingly use electronic media for news and information. Periodical advertising has also experienced a decline as a result of the move to electronic media.

***Although the Postal Service's Competitive service volumes have increased, this increase is largely due to significant volume growth from three major customers, all of which continue to build the delivery capability that would enable them to divert volume away from the Postal Service.***

The growth in our Competitive service volumes over the past five years is largely attributable to three of our largest customers. Several of these customers continue to build delivery capability enabling them to divert volume away from the Postal Service over time. As these customers divert significant volume away from the Postal Service, the growth in our Competitive service volumes may not continue.

***Adverse events may call into question our reputation for quality and reliability or our ability to deliver the mail and could diminish the value of our brand. This could adversely affect our business operations and operating revenue.***

Our brand represents quality and reliable service, and therefore is a valuable asset. We use our brand extensively in sales and marketing initiatives and exercise care to defend and protect it. Any event, whether real or perceived, that calls into question our long-term existence, our ability to deliver mail, our quality or our reliability could diminish the value of our brand and reputation and could adversely affect our business operations and operating revenue.

***Our need to streamline our operations in response to declining mail volume may result in significant costs. The measures we are considering may be insufficient to reduce our workforce and physical infrastructure to a level commensurate with declining mail volume.***

Our ongoing reviews of cost-savings opportunities may identify opportunities that impact mail processing operations or affect lobby hours of retail units, Post Offices or other facilities. Presently, our regular review of the carrying value of our assets has not resulted in significant write-downs of our physical assets. However, future changes in business strategy, operations, legislation, government regulations or economic or market conditions may result in material impairment write-downs of our assets.

***A union contract arrived at either through negotiation or arbitration could have a significant adverse impact on our future results of operations by impacting our control over wages and benefits and/or by limiting our ability to manage our workforce effectively.***

Our collective bargaining agreements currently in force include provisions for mandatory COLAs, which are linked to the CPI-W. Although CPI-W has been relatively low since 2008 when our employees received COLA-based pay increases of nearly $1.1 billion, a resurgence of consumer inflation could have a significant adverse impact on our labor costs. The agreements also contain provisions that limit our ability to reduce the size of the labor force and employ non-career personnel. Reductions in the size and cost of our labor force may be necessary to offset the effects of declining volume and revenue.

Our ability to negotiate contracts that control labor costs is essential to achieving financial stability. We have no assurance that we will be able to negotiate contracts in the future with our unions that will result in a cost structure that is sustainable within current and projected future revenue levels. In addition, if our future negotiations should fail and involved parties proceed to arbitration, the risk of an adverse outcome exists, as there is no current statutory mandate requiring an interest arbitrator to consider our financial health in issuing an award. An unfavorable award in arbitration could have significant adverse consequences on our ability to meet future financial obligations.

Furthermore, an increase in the CPI-W may not correspond to an equivalent increase in the CPI-U, which affects the prices of our Market-Dominant services under current law, as the two indexes are calculated differently. Therefore, we may not be able to increase the prices of our services to keep up with increases in our wages.

***We rely on third-parties for air transportation to deliver our mail throughout the nation and abroad. A significant disruption in air transportation service could adversely affect our business and results of operations.***

We do not own or operate aircraft and we rely on third-parties for the air transportation service required to deliver our mail and packages to various destinations within the U.S. and abroad. We are therefore subject to the risk of these providers' business operations and also to the adoption of regulatory requirements and other events that affect specific airlines or the airline industry as a whole, which could affect air service or temporarily ground the fleets of one or more of our providers. Commercial air carrier availability declined as a result of travel restrictions associated with the COVID-19 pandemic, and the significant shift from commercial to chartered air carriers increased our air transportation expenses in 2020.

***Fuel expenses are a material part of our operating costs. A significant increase in fuel prices could adversely affect costs and results of operations.***

We are exposed to changes in commodity prices, primarily for diesel fuel, unleaded gasoline and aircraft fuel for transportation of mail, and natural gas and heating oil for facilities. For the year ended September 30, 2020, our expenses for fuel represented 3.1% of operating expenses. The price and availability of fuel can be unpredictable and is beyond our control. Additionally, as we use contracted carriers to transport the mail, we anticipate that increased operating costs for these independent carriers, including increased costs resulting from rising fuel prices, will ultimately be passed through to us, which would result in increased costs.

***A failure to protect the privacy of customer or employee information could damage our reputation and result in a loss of business.***

We have invested in technology and employ a variety of technology security initiatives aimed at protecting organizational information, as well as customer information. As one of the U.S. government entities most trusted by the nation, protecting the confidentiality of data that we obtain is paramount to us. However, should our information technology security initiatives not fully insulate us from a security breach or data loss, our reputation could be damaged, resulting in an adverse effect on our operations and financial results. Moreover, unlike other non-governmental entities in our industry, we must abide by the *Privacy Act of 1974*, which restricts how we can collect, use, maintain and disseminate personally identifiable information and prescribes civil remedies for non-compliance.

***We rely extensively on computer systems and technology to manage the delivery of mail, process transactions, summarize results and manage our business. We also face cybersecurity threats which may result in breaches of systems containing confidential or sensitive information, and/or our inability to operate systems necessary for conducting certain operations.***

Our operational and administrative information systems are among the largest and most complex systems maintained by any organization in the world. Any disruption to our infrastructure, including those impacting computer systems that facilitate mail handling and delivery and customer-utilized websites, or to the infrastructure of our service providers, could adversely impact customer service, mail volume and revenue, and result in significant increased costs. Any significant systems failure could cause delays in the processing and delivery of mail or result in the inability to process operational and financial data. Such disruptions could impair our reputation for reliable service, which would also adversely affect results of operations.

We also depend on and interact with the technology and systems of third parties. These may include service organizations that we use for our metered postage revenue and other services, and we often are reliant on certain information from these third parties to record such revenue. Like us, these third parties are subject to risks imposed by data breaches, cyberattacks and other events or actions that could damage or disrupt their networks or systems, or otherwise affect our financial reporting.

Reports of cyber incidents affecting national security, intellectual property and individuals have been widespread, with reported incidents involving data loss or theft, economic loss, computer intrusions and privacy breaches. The source of such threats is wide-ranging, and because the techniques used by those who perpetrate cyber incidents are increasingly sophisticated, change frequently, are complex, and are often not recognized until launched, we may not be able to fully anticipate threats to our systems and assets, or to implement effective preventive measures against all cyber threats, despite our best efforts. The ability to maintain confidentiality, integrity and availability of information is critical to fulfilling our mission, and system failures resulting from these threats could damage our reputation, resulting in loss of business and increased costs.

**FINANCIAL RISK FACTORS**

***Current and future management actions to generate cash flows by increasing efficiency, reducing costs and generating additional revenue may not be sufficient to meet all of our financial obligations or to carry out our strategy.***

Our strategies to increase efficiency and reduce costs by adjusting our network, infrastructure and workforce and to retain and grow revenue are currently constrained by contractual, statutory, regulatory and political restrictions. Accordingly, our ability to react quickly to the changing economic climate and industry conditions is inhibited. We have also proposed legislative changes that are needed to provide us with the legal authority to implement additional measures to increase efficiency and cost savings and to grow revenue, but nothing we have proposed has become law.

***We have a substantial amount of indebtedness.***

As of September 30, 2020, we reported outstanding debt obligations to the Federal Financing Bank ("FFB") of $14.0 billion.

As of September 30, 2020, we have a total underfunded PSRHBF liability of $74.5 billion as reported by OPM, which we will be required to fund in future periods. Of this amount, we reported $51.9 billion in the accompanying *Balance Sheets* as a current liability due and payable to the PSRHBF for invoiced but unpaid contributions.

As of September 30, 2020, we have estimated underfunded retirement benefit liabilities to the CSRS and FERS funds of $33.8 billion and $26.9 billion, respectively, as reported by OPM, which we will be required to fund in future periods. Of these amounts, we have unpaid obligations due to OPM that total $6.6 billion for CSRS amortization payments and $4.8 billion for FERS amortization payments, which we have reported as current liabilities within *Retirement Benefits* in the accompanying *Balance Sheets*.

Our significant indebtedness and unpaid retirement and retiree health obligations have important consequences. They limit our flexibility in planning for, or reacting to, changes in the business environment or competition. They place us at a competitive disadvantage compared to commercial competitors that may have less debt and which have broader access to public capital markets. They also could require us to dedicate a substantial portion of our future cash flow from operations to payments on debt and retirement and retiree healthcare obligations, thus reducing the availability of cash flow to fund working capital, capital expenditures and other general organizational activities.

***Health and pension benefit costs represent a significant expense to us.***

With approximately 496,000 career employees, approximately 500,000 retirees and survivors who receive retirement health benefits, and approximately 700,000 retirees and survivors who receive retirement benefits, our expenses relating to employee and retiree health and pension benefits are significant. We participate in U.S. government pension and health and benefits programs for employees and retirees, including FEHB, CSRS and FERS, as required by law or contractual agreement with our unions. We have no control or influence over the benefits offered by these plans and are required to make contributions to these plans as specified by law or, in the case of health benefits for the majority of our current employees, by contractual agreements with our unions. Several factors including participant mortality rates, returns on investment and inflation could require us to make significantly higher future contributions to these plans, and all of these factors are beyond our control.

Over the last decade, we have experienced significant increases in retiree health benefits costs, primarily as a result of PAEA, which obligates us to fully prefund the health benefits of current Postal Service employees and retirees. Additionally, we are required to continue contributing to the FERS pension program at rates specified by OPM and to make amortization payments for the unfunded liability. We are also required to make amortization payments to pay down the unfunded liability of the CSRS when OPM determines that such payments are necessary.

***Due to our recent and projected cash constraints, our operational performance in the future could be at risk as a result of inadequate capital investment in facilities, delivery vehicles, mail processing equipment or information technology infrastructure, all of which are essential for our operations.***

If our operations do not generate the liquidity we require, we may be forced to reduce, delay or cancel investments in technology, facilities and/or transportation equipment, as we have done in the recent past, while our competitors and other businesses are pursuing advanced, competing technologies and equipment.

Additionally, our aging facilities, equipment and transportation fleet could inhibit our ability to be competitive in the marketplace, deliver a high-quality service and meet the needs of the American public. The changes in the economic landscape in recent years have increased the importance for us to invest in our operations in order to remain competitive. Failure to anticipate or react to our competition, market demands and/or new technology due to inadequate cash reserves is a significant operational risk. An aging or potentially obsolete infrastructure could result in a loss of business and increased costs.

## REGULATORY RISK FACTORS

***We are subject to congressional oversight and regulation by the PRC and other government agencies. We have a wide variety of stakeholders whose interests and needs are sometimes in conflict.***

We operate as an independent establishment of the executive branch of the U.S. government and, as a result, we are subject to a variety of regulations and other limitations applicable to federal agencies. If the U.S. government curtails its spending due to debt ceiling or other constraints, we may be adversely impacted. Additionally, as an outgrowth of our unique status as a fundamental service provider to the nation, we attempt to balance the interests of many parties. Limitations on our ability to take action could adversely affect operating and financial results.

***Existing laws and regulations limit our ability to introduce new products or services, enter new markets, generate new revenue streams or manage our cost structure. These laws and regulations may also prevent us from increasing prices sufficiently or generating sufficient efficiency improvements to offset increased costs. This would adversely affect our results of operations.***

In order to offset declining volume and revenue of mail caused by the changing economy and diversion to electronic media, our ability to sell new products and services in new or existing markets will be a key factor in improving our financial condition. However, various laws and regulations significantly limit our ability to enter new markets and/or to provide new services and products, as we are often constrained by traditional industry definitions.

Without legal or regulatory changes that allow us to introduce new products or services to take advantage of our assets, including our strong network and "last-mile" capabilities, we may be unable to respond adequately to consumers' changing needs and expectations. These limitations have the potential to adversely impact our results of operations and long-term financial viability. The PAEA currently generally limits price increases on our Market-Dominant services to the rate of inflation as measured by the CPI-U. However, our costs are not similarly limited. A large portion of our cost structure cannot be altered expeditiously, and the number of our delivery points continues to grow. Accordingly, we may not be able to increase prices sufficiently to offset increased costs.

Because our services are provided primarily through our employees, our costs are heavily concentrated in wages and employee and retiree benefits. These costs are significantly impacted by wage inflation, health benefit premium increases, retirement and workers' compensation programs, and COLA. Some of these costs have historically tended to increase at a higher rate than inflation as measured by the CPI-U. We believe that continuing productivity improvements alone will not be sufficient to address the challenges presented by declining volume and revenue, by the current regulatory price cap, and by statutorily imposed costs, nor will our efforts to grow operating revenue keep pace with our increased costs.

**GENERAL RISK FACTORS**

***Workers' compensation insurance and claims expenses could have a material adverse effect on our business, financial condition and results of operations.***

Workers' compensation liabilities are established for estimates of cash outlays that we are expected to ultimately incur on reported claims, as well as estimates of the costs of claims that have been incurred but not yet reported. Trends in actual experience and management judgments about the present and expected levels of cost per claim are significant factors in the determination of such accruals. Several other factors which are beyond our control, such as discount and inflation rates, could cause us to incur higher workers' compensation expenses.

We believe our estimated liability for such claims is adequate, but if actual experience results in an increase in the number of claims, and/or severity of claims for which we retain risk, this could cause a material difference from our estimates and adversely affect our financial condition and results of operations. In addition, our workers' compensation program is administered for us by the DOL, and as such, we do not have the same level of control over the execution of the program, including the costs we incur for certain medical and pharmacy costs, that a private company has with its workers' compensation insurance provider.

***We rely on the terms and conditions of our contracts with vendors and customers to deliver our services. These contracts are renegotiated on a routine and periodic basis. Significant changes in the costs, pricing or terms associated with these contracts could adversely affect our business.***

Some of our suppliers and customers enter into long-term contracts with us to supply goods and services and to procure our services. These contracts are renegotiated from time to time and to the extent that contracts are not renewed, or are renewed with terms that may not sufficiently cover our costs or increase our costs, may have an adverse effect on our business. Certain vendors and customers, including a large courier service for air transportation, are significant to the delivery of certain product lines. Our ability to maintain current or improved contract terms with customers and suppliers is critical to our initiatives to return to financial sustainability.

***The potential liability associated with existing and future litigation against us could have a material adverse effect on our business, results of operations, financial condition and cash flows.***

In the normal course of operations, we are subject to threatened and actual legal proceedings from time to time. Any litigation, regardless of its merits, could result in substantial legal fees and costs incurred by us. Further, actions that have been or will be brought against us may not be resolved in our favor and, if significant monetary judgments are rendered, we may not have the ability to pay them. Such disruptions, legal fees and any losses resulting from these claims could have a material adverse effect on our business, results of operations, financial condition and cash flows.

***Natural disasters and adverse weather conditions that can damage property and disrupt business operations could have an adverse impact on our business operations and our financial results.***
Natural disasters, such as hurricanes, earthquakes, tornadoes, floods, wildfires and severe winter storms place our employees in harm's way and make it challenging to deliver mail under these unpredictable and dangerous conditions. Damage to our facilities could also have a negative impact on business operations. We may incur significant additional operating costs in order to maintain continuity in fulfilling our mission.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

## ITEM 2. PROPERTIES

We own more than 8,400 and lease more than 23,000 real properties ranging in size from 66 square feet to 32 acres. Our facilities support retail, delivery, mail processing, maintenance, administrative and support activities and are located in numerous communities throughout the U.S. and its territories. We believe our properties are generally in good physical condition and require only routine repairs and maintenance and periodic capital improvements. In addition, we monitor the productive capacity of our properties and our operational needs, which may, from time to time, result in the consolidation of some of our facilities.

## ITEM 3. LEGAL PROCEEDINGS

We are subject to legal proceedings and claims that arise in the ordinary course of our business. For further discussion of the legal proceedings affecting us, see *Item 8. Financial Statements and Supplementary Data*, *Notes to Financial Statements*, *Note 11 - Commitments and Contingencies*.

## CLASS ACTION LITIGATION

As previously reported, on January 14, 2010, the Equal Employment Opportunity Commission's (“EEOC”) Office of Federal Operations (“OFO”) certified the case *McConnell v. Brennan* (first instituted in 2006 as *McConnell v. Potter*) as a class action against us, with the class consisting of permanent-rehabilitation and limited-duty Postal Service employees who we assessed under the National Reassessment Process ("NRP") between the dates of May 5, 2006, and July 1, 2011. We utilized the NRP to ensure employees receiving workers' compensation benefits were placed in jobs consistent with their abilities, and that records regarding employees injured on the job were correct.

The *McConnell* case alleges violations of the Rehabilitation Act of 1973 resulting from the NRP's failure to provide a reasonable accommodation, the NRP's wrongful disclosure of medical information, the NRP's creation of a hostile work environment, and the NRP's adverse impact on disabled employees. The class is seeking injunctive relief and damages of an uncertain amount.

In 2015, the Administrative Judge assigned to handle the *McConnell* case granted in-part both the Class Agent's and our motions for summary judgment. In her decision, the Administrative Judge found that the NRP violated the Rehabilitation Act. We appealed this decision to the OFO, and the OFO denied this appeal in 2018. We implemented the OFO’s order, and notified all class members of their right to file an individual claim for relief. Class members were allowed thirty days to submit claims to our National Equal Employment Opportunity Investigative Services Office. The claims submission deadline has now passed and the dispute process for individual claims is currently underway before a newly assigned EEOC Administrative Judge.

The class members have the right to pursue individual claims. Should they be successful in establishing liability and damages that they assert, the ultimate outcome in this case could have a material impact on our financial results.

### CHALLENGES TO OPERATIONAL ACTIONS

In the run-up to the 2020 general election, a number of legal proceedings have arisen regarding our operational policies and practices, including with respect to the handling of election mail. Various district courts have issued preliminary injunctions, some of whose provisions extend beyond the handling of election mail to our overall general operations.

We do not agree as a matter of law that the federal district courts have jurisdiction to hear service related claims against us, or that there is substantive merit to the claims that would justify relief. However, if the outcome of these cases results in the continuation of injunctive relief affecting our operational flexibility, our performance may be negatively impacted, which could in turn have an impact on our financial results.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

# PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

As an "independent establishment of the executive branch of the Government of the United States," we do not issue equity or other securities.

## ITEM 6. SELECTED FINANCIAL DATA

The selected financial data presented below for each year ended September 30 is derived from our audited financial statements. The selected financial data should be read in conjunction with *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations* and the related notes to the financial statements in *Item 8. Financial Statements and Supplementary Data*, *Notes to Financial Statements*:

| *(in millions)* | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| **Operating results** | | | | | |
| **Revenue:** | | | | | |
| Total revenue before temporary exigent surcharge and change in accounting estimate | $ 73,133 | $ 71,154 | $ 70,660 | $ 69,636 | $ 69,301 |
| Temporary exigent surcharge[1] | — | — | — | — | 1,136 |
| Change in accounting estimate[2] | — | — | — | — | 1,061 |
| **Total revenue** | **$ 73,133** | **$ 71,154** | **$ 70,660** | **$ 69,636** | **$ 71,498** |
| **Operating expenses:** | | | | | |
| Compensation and benefits | $ 48,730 | $ 47,519 | $ 46,525 | $ 45,634 | $ 45,005 |
| Retirement benefits | 6,964 | 6,197 | 5,877 | 6,132 | 3,684 |
| Retiree health benefits | 4,660 | 4,564 | 4,481 | 4,260 | 9,105 |
| Workers' compensation | 2,903 | 3,504 | 4 | (797) | 2,682 |
| Transportation | 8,814 | 8,184 | 7,861 | 7,238 | 6,992 |
| All other operating expenses | 10,116 | 9,911 | 9,697 | 9,743 | 9,431 |
| **Total operating expenses** | **$ 82,187** | **$ 79,879** | **$ 74,445** | **$ 72,210** | **$ 76,899** |
| **Loss from operations** | **$ (9,054)** | **$ (8,725)** | **$ (3,785)** | **$ (2,574)** | **$ (5,401)** |
| **Net loss** | **$ (9,176)** | **$ (8,813)** | **$ (3,913)** | **$ (2,742)** | **$ (5,591)** |
| **Financial position** | | | | | |
| **Assets:** | | | | | |
| Cash and cash equivalents | $ 14,358 | $ 8,795 | $ 10,061 | $ 10,513 | $ 8,077 |
| Property and equipment, net | 14,567 | 14,352 | 14,616 | 14,891 | 15,296 |
| All other assets[3] | 6,979 | 2,486 | 2,011 | 1,990 | 1,846 |
| **Total assets** | **$ 35,904** | **$ 25,633** | **$ 26,688** | **$ 27,394** | **$ 25,219** |
| **Liabilities:** | | | | | |
| Retiree health benefits | $ 51,865 | $ 47,205 | $ 42,641 | $ 38,160 | $ 33,900 |
| Workers' compensation | 20,074 | 18,529 | 16,409 | 17,910 | 20,039 |
| Debt | 14,000 | 11,000 | 13,200 | 15,000 | 15,000 |
| Retirement benefits | 11,583 | 8,385 | 5,707 | 3,306 | 646 |
| All other liabilities[3] | 19,090 | 12,046 | 11,368 | 11,742 | 11,616 |
| **Total liabilities** | **$116,612** | **$ 97,165** | **$ 89,325** | **$ 86,118** | **$ 81,201** |
| **Total net deficiency** | **$(80,708)** | **$(71,532)** | **$(62,637)** | **$(58,724)** | **$(55,982)** |

[1] The PRC authorized us to collect a 4.3% exigent surcharge on Market-Dominant services beginning in January 2014 and ending on April 10, 2016, the time at which the surcharge had produced just over $4.6 billion in incremental revenue.

[2] The 2016 change in accounting estimate relates to changes in estimates of stamp usage and breakage for *Forever Stamps* sold from 2011 through June 30, 2016, reflected as a decrease in the *Deferred revenue-prepaid postage* liability as of June 30, 2016.

[3] In 2020, *All other assets* and *All other liabilities* include approximately $4.5 billion of operating right-of-use assets and approximately $4.6 billion of corresponding operating lease liabilities, respectively, as a result of adopting ASC 842 on October 1, 2019. See *Note 2 - Recent Accounting Pronouncements, Recently Adopted Pronouncement* and *Note 15 - Leases* for further details.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### CAUTIONARY STATEMENTS

The following *Management's Discussion and Analysis of Financial Condition and Results of Operations* and other parts of this report describe the principal factors affecting our financial results, liquidity, capital resources and critical accounting estimates. Our results of operations may be impacted by risks and uncertainties, many of which we cannot control or influence, and may cause actual results to differ materially from those currently contemplated.

Forward-looking statements contained in this report represent our best estimates of known and anticipated trends believed relevant to future operations. However, actual results may differ significantly from current estimates. Certain forward-looking statements are included in this report and use such words as "may," "will," "could," "expect," "believe," "plan," "estimate," "project" or other similar terminology. These forward-looking statements, which involve a number of risks and uncertainties, reflect current expectations regarding future events and operating performance as of the date of this report. These risks include, but are not limited to, the effects of COVID-19 on our business, financial condition and results of operations.

We have no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Important factors that could cause actual results to differ materially from those anticipated in our forward-looking statements include, but are not limited to, those described under *Item 1A. Risk Factors*.

### OVERVIEW

With our mandate to provide universal postal services to the nation, we serve consumer and commercial customers in the U.S., as well as internationally. Our operations include an extensive and integrated retail, processing, distribution, transportation and delivery network, and we operate throughout the U.S., its possessions and territories. We operate as a single segment and report our performance as a single business.

We have successfully implemented initiatives that have reduced the growth in certain costs by billions of dollars while offering features for customers such as *Informed Delivery*. However, legal restrictions on pricing, service diversification and operations restrict our ability to cover the costs of providing prompt, reliable and efficient postal services to the nation.

As an independent establishment of the U.S. government, we have a unique mission to:

- Serve the American people and, through the universal service obligation, bind our nation together by maintaining and operating our unique, vital and resilient infrastructure;
- Provide trusted, safe and secure communications and services between the U.S. government and the American people, businesses and their customers, and the American people with each other; and
- Serve all areas of our nation, making full use of evolving technologies.

We will carry out this mission by remaining an integral part of the U.S. government and providing all Americans with universal and open access to our unrivaled delivery and retail network; using technology, innovation and, where appropriate, private-sector partnerships to meet our customers' changing needs; operating in a modern, efficient and effective manner; and remaining an employer of choice, including attracting and retaining high-quality employees.

### RESULTS OF OPERATIONS

#### *SUMMARY*

The major factors that impact our operating results include overall customer demand, the mix of postal services and contribution associated with those services, volume of mail and packages processed through our network, our ability to manage our cost structure in line with declining levels of mail volume, increased competition in the more labor-intensive Shipping and Packages business and an increasing number of delivery points.

## Effects of COVID-19

While we have maintained operations during the COVID-19 pandemic, travel and logistics restrictions have continued to negatively affect our consumer and commercial customers, as well as our suppliers and mail service providers. Many of our commercial customers, especially those with consumer-facing businesses, have been required to curtail their operations, operate at a lower capacity and/or suspend their marketing and advertising expenditures. As a result, our mail volumes began to decline significantly in late March 2020, and this decline continued during the second half of 2020. We expect that the COVID-19 crisis may have similar effects on demand for our mail services as what we experienced during the 2007-2009 Great Recession when a significant portion of mail volume declined and never subsequently recovered to its prior levels.

Although the COVID-19 pandemic has caused a surge in the nation's use of e-commerce resulting in higher Shipping and Packages volumes, we do not expect that the increases in our Shipping and Packages revenues will continue to offset losses in mail service revenue caused by the COVID-19 pandemic in the long term. However, we believe that consumer behavior has evolved during the pandemic as the nation has increasingly relied on the safety and convenience of e-commerce. While the future remains uncertain, this new normal in the e-commerce marketplace is expected to sustain package volume at elevated levels relative to prior-year trends.

On March 27, 2020, the President signed the *Coronavirus Aid, Relief, and Economic Security Act*, enacted as Public Law 116-136 (the "*CARES Act*"). Notwithstanding our $15.0 billion statutory debt limit, and $3.0 billion annual limit on net new borrowings, the *CARES Act* allows us to borrow up to an additional $10.0 billion in financing from the U.S. Treasury to fund operating expenses. The U.S. Treasury may lend up to this amount at our request, upon terms and conditions mutually agreed upon. On July 29, 2020, we announced that we had reached an agreement in principle with the U.S. Treasury on the terms and conditions associated with the *CARES Act* financing. The agreed-upon terms and conditions must be memorialized in loan documents and satisfied before we will have access to the *CARES Act* borrowing, as limited by such terms and conditions.

## 2020 Compared with 2019

For the year ended September 30, 2020, our operating revenue was $73.1 billion, an increase of approximately $2.0 billion, or 2.8%, from the prior year.

In the first half of 2020, our service category revenues continued prior-year trends, however the COVID-19 pandemic resulted in significant shifts in demand affecting all categories in the second half of the year. As more fully described below in *Operating Revenue and Volume*, Shipping and Packages revenue increased by approximately $5.8 billion, or 25.3%, compared to the prior year, driven by the surge in e-commerce resulting from the COVID-19 pandemic. This increase was partially offset by decreases in the combined revenue from *First-Class Mail* and *Marketing Mail* of $3.1 billion, or 7.6%, compared to the prior year, attributable to a decline in combined volume of approximately 13.8 billion pieces, as the COVID-19 pandemic further exacerbated the systemic volume declines in these service categories.

As more fully described below in *Operating Expenses*, our 2020 operating expenses increased approximately $2.3 billion, or 2.9%, compared to the prior year. We incurred over $700 million in operating expenses during 2020 related to additional costs associated with the COVID-19 pandemic. Overall, the increase in operating expenses was largely due to the following:

- Compensation and benefits expense increase of approximately $1.2 billion, or 2.5%, from the prior year, due primarily to additional overtime hours needed for the higher Shipping and Packages volumes during the second half of the year, contractual wage adjustments and an increase in paid sick leave as a result of the COVID-19 pandemic;
- Retirement benefits expense increase of $767 million, or 12.4%, from the prior year, due to revised actuarial assumptions for CSRS and FERS unfunded retirement benefits amortization and to increased contribution rates for FERS normal costs, which are outside of management's control; and
- Transportation expense increase of $630 million, or 7.7%, from the prior year, due to higher air and highway transportation costs. The increase in air transportation costs was largely driven by the surge in Shipping and Packages volumes and a shift from commercial carriers to chartered air carriers due to travel restrictions associated with the COVID-19 pandemic. The increase in highway transportation costs was driven by an

increase in the number of miles driven and a one-time accounting adjustment associated with embedded leases.

The above increases were partially offset by a decrease in workers' compensation expense of $601 million, from the prior year, driven by a $456 million decrease associated with changes in discount rates, which are outside of management's control.

Overall, we reported a net loss of approximately $9.2 billion for the year ended September 30, 2020, an increase in net loss of $363 million, compared to a net loss of approximately $8.8 billion for 2019.

**2019 Compared with 2018**

For the year ended September 30, 2019, our reported operating revenue was $71.1 billion, an increase of $514 million, or 0.7%, from the prior year.

As more fully described below in *Operating Revenue and Volume*, combined revenue from *First-Class Mail* and *Marketing Mail* declined by $670 million, or 1.6%, compared to the prior year. This decline was attributable to a decline in combined volume of nearly 3.4 billion pieces. These declines in *First-Class Mail* and *Marketing Mail* revenue were more than offset by the increase in Shipping and Packages revenue of approximately $1.3 billion, or 6.1%, as we experienced growth in this lower contribution margin per piece service category throughout 2019.

As more fully described below in *Operating Expenses*, our 2019 operating expenses increased $5.4 billion, or 7.3%, compared to the prior year. The increase in operating expenses was primarily due to the following:

- Compensation and benefits expense increase of $994 million, or 2.1%, from the prior year, due to contractual wage adjustments, as well as overtime hours incurred during the calendar year 2018 holiday period;
- Retirement benefits expense increase of $320 million, or 5.4%, from the prior year, due to revised actuarial assumptions for CSRS and FERS unfunded retirement benefits amortization, which are outside of management's control;
- Workers' compensation expense increase of $3.5 billion, from the prior year, driven by a $3.4 billion increase associated with changes in discount rates, which are outside of management's control; and
- Transportation expense increase of $323 million, or 4.1%, from the prior year, due to higher air and highway transportation costs. The increase in air transportation costs was largely driven by higher air rates and volumes for certain carriers, as well as higher average jet fuel prices. The increase in ground transportation costs was largely driven by higher unit costs per mile due to supplier cost pressures resulting in part from a national shortage of truck drivers, as well as higher average fuel costs.

This resulted in a net loss of $8.8 billion for the year ended September 30, 2019, an increase in net loss of $4.9 billion, compared to a net loss of $3.9 billion for 2018. Approximately $3.4 billion of this increase in net loss was the result of the impact of discount rate changes on our workers' compensation expense.

**Non-GAAP Controllable Loss**

In the day-to-day operation of our business, we focus on costs that can be managed in the normal business operations, such as salaries and transportation. We calculate controllable loss, a non-GAAP measure, by excluding items over which we have no control, such as PSRHBF actuarial revaluation and amortization expenses, workers' compensation expenses caused by actuarial revaluation and discount rate changes, and retirement expenses caused by actuarial revaluation. Controllable loss should not be considered a substitute for net loss and other GAAP reporting measures.

The following table reconciles our GAAP net loss to controllable loss for the years ended September 30, 2020, 2019 and 2018:

| *(in millions)* | 2020 | 2019 | 2018 |
|---|---|---|---|
| **Net loss** | **$ (9,176)** | **$ (8,813)** | **$ (3,913)** |
| PSRHBF unfunded liability amortization expense[1] | 810 | 789 | 815 |
| Change in workers' compensation liability resulting from fluctuations in discount rates | 1,909 | 2,365 | (1,066) |
| Other change in workers' compensation liability[2] | (304) | (210) | (323) |
| CSRS unfunded liability amortization expense[3] | 1,817 | 1,617 | 1,440 |
| FERS unfunded liability amortization expense[4] | 1,343 | 1,060 | 958 |
| Change in normal cost of retiree health benefits due to revised actuarial assumptions[5] | (151) | (226) | 138 |
| **Controllable loss** | **$ (3,752)** | **$ (3,418)** | **$ (1,951)** |

[1] Expense for the annual payment due by September 30 of the respective year, on the unfunded liability as calculated by OPM.

[2] Net amounts include changes in assumptions, valuation of new claims and revaluation of existing claims, less current year claim payments.

[3] Expense for the annual payments due September 30 of the respective year, calculated by OPM to amortize the unfunded CSRS retirement obligation. Payments are to be made in equal installments through 2043.

[4] Expense for the annual payment due September 30 of the respective year, calculated by OPM to amortize the unfunded FERS retirement obligation. Payments are to be made over a 30-year rolling period based on OPM invoices.

[5] Represents the annual portion of the normal cost payment due September 30, 2020, 2019 and 2018, attributable to revised actuarial assumptions and discount rate changes. The total normal cost payment amount, calculated by OPM, is $3.9 billion, $3.8 billion and $3.7 billion, respectively.

For the year ended September 30, 2020, we recognized a $3.8 billion controllable loss compared to a $3.4 billion controllable loss in 2019, an increase in controllable loss of $334 million. This increase was driven by the increases in compensation and benefits of approximately $1.2 billion, transportation expenses of $630 million, FERS normal cost of $284 million, and other operating expenses of $205 million, partially offset by the nearly $2.0 billion increase in operating revenue. These items are discussed in greater detail in *Operating Revenue and Volume* and *Operating Expenses*.

For the year ended September 30, 2019, we recognized a $3.4 billion controllable loss compared to a nearly $2.0 billion controllable loss in 2018, an increase in controllable loss of nearly $1.5 billion. This increase was driven by the increases in compensation and benefits of $994 million, the controllable portion (before adjustments for actuarial changes) of the normal cost of retiree health benefits expenses of $473 million, transportation expenses of $323 million and other operating expenses of $214 million, partially offset by the $514 million increase in operating revenue. These items are discussed in greater detail in *Operating Revenue and Volume* and *Operating Expenses*.

### *OPERATING REVENUE AND VOLUME*

We generate the vast majority of our revenue through products and services associated with the processing and delivery of various types of mail and packages, both domestically and internationally. Revenue for each mail class is highly correlated with its volume processed and delivered, although revenue per product varies by service category.

The combined categories of *First-Class Mail* and *Marketing Mail* have historically provided the majority of our operating revenue, despite long-term trends away from traditional paper communication and correspondence to electronic media that have been further exacerbated by the COVID-19 pandemic. For the years ended September 30, 2020, 2019 and 2018, *First-Class Mail* and *Marketing Mail* combined represented 51.5%, 57.3% and 58.7% of our operating revenue, respectively, and 90.4%, 91.6% and 91.5% of our total volume, respectively.

*First-Class Mail* has historically been the service category producing the highest revenue. As a result of the surge in e-commerce associated with the COVID-19 pandemic, Shipping and Packages revenue surpassed that of *First-Class Mail*, representing 39.0% of our revenue for the year ended September 30, 2020, compared to only 32.5% for *First-Class Mail*. Shipping and Packages generated only 5.7%, 4.3% and 4.2% of our volume for each of the years ended September 30, 2020, 2019 and 2018, respectively, and the costs to process and deliver these services are higher than the costs associated with *First-Class Mail* on a per-piece basis.

We expect that the COVID-19 crisis may have similar effects on demand for our mail services as what we experienced during the 2007-2009 Great Recession when a significant portion of mail volume declined and never subsequently recovered to its prior levels. Furthermore, while package volume growth has recently slowed since its early fourth-quarter peak, we believe that consumer behavior has evolved during the pandemic as the nation has increasingly relied on the safety and convenience of e-commerce. While the future remains uncertain, this new normal in the e-commerce marketplace is expected to sustain package volume at elevated levels relative to prior-year trends.

We implemented price increases on various Market-Dominant and Competitive services in January 2020, January 2019 and January 2018. In June 2019, we also implemented dimensional weighting provisions that amount to price increases for certain Competitive service Shipping and Packages subcategories. On July 1, 2020, we implemented our new self-declared rates remuneration system, which effectively increased prices on our competitive International Mail services. On September 4, 2020, the PRC approved our plan to increase prices on certain Shipping and Packages subcategories on a time-limited basis. These increased prices will be effective October 18, 2020, through December 27, 2020, after which prices will revert to the 2020 pricing schedule.

On October 9, 2020, we filed with the PRC notices of our intent to increase prices for certain Market-Dominant services. The average proposed price increase is 1.7% for Market-Dominant services. As of the date of this report, the PRC has not completed its review of this price increase plan.

The following table details our operating revenue and volume for the years ended September 30, 2020, 2019 and 2018 by service category:

| *(in millions)* | 2020 | 2019 | 2018 |
|---|---|---|---|
| **Operating revenue:** | | | |
| First-Class Mail[1] | $ 23,778 | $ 24,431 | $ 24,948 |
| Marketing Mail[2] | 13,909 | 16,359 | 16,512 |
| Shipping and Packages[3] | 28,537 | 22,783 | 21,467 |
| International | 2,400 | 2,474 | 2,630 |
| Periodicals | 1,024 | 1,194 | 1,277 |
| Other[4] | 3,475 | 3,895 | 3,788 |
| **Total operating revenue** | **$ 73,123** | **$ 71,136** | **$ 70,622** |
| **Volume:** | | | |
| First-Class Mail[1] | 52,624 | 54,936 | 56,712 |
| Marketing Mail[2] | 64,143 | 75,653 | 77,270 |
| Shipping and Packages[3] | 7,323 | 6,165 | 6,149 |
| International | 729 | 855 | 941 |
| Periodicals | 4,006 | 4,635 | 4,994 |
| Other[5] | 346 | 318 | 336 |
| **Total volume** | **129,171** | **142,562** | **146,402** |

Note: The totals for certain mail categories for prior years have been reclassified to conform to classifications used in the current year. Non-operating revenue is no longer included in this schedule.

[1] Excludes *First-Class Package Service - Retail* and *First-Class Package Service - Commercial*.

[2] Excludes *Marketing Mail Parcels*.

[3] Includes *Priority Mail*, *USPS Retail Ground*, *Parcel Select Mail*, *Parcel Return Service Mail*, *Marketing Mail Parcels*, *Package Service Mail*, *First-Class Package Service - Retail*, *First-Class Package Service - Commercial* and *Priority Mail Express*.

[4] Revenue includes *PO Box* services, *Certified Mail*, Return Receipts, Insurance, Other Ancillary Services, Shipping and Mailing Supplies, Collect on Delivery, Registered Mail, Stamped Envelopes and Cards, money orders and Other services.

[5] Volume includes Postal Service internal mail and free mail provided to certain congressionally mandated groups.

Although volume is generally linked to the strength of the U.S. economy, and revenue is linked to changes in how our customers use mail and packages, we have proactively targeted opportunities to grow our business. We continue to focus on our customers' needs and have increased our marketing investment in mail and package innovation. However, we also recognize that revenue growth is constrained by laws and regulations restricting the types of products, services and pricing we may offer to our customers and the speed with which we can bring new products to market.

We anticipate that *First-Class Mail* will continue to lose volume in future years with the migration to electronic communication and transactional alternatives resulting from technological changes. To address the long-term trend that such changes have had on our *First-Class Mail* revenue and volume, we have been working with the mailing industry to slow the decline through mailing promotions and leveraging the high open-and-read rates of, for example, bills and statements for additional customer engagement and education.

We have also focused on providing new services and innovating with *Marketing Mail.* We have expanded service offerings such as *Informed Delivery*, which enables customers to preview mail and manage packages scheduled to arrive as a means of merging digital and physical mail, as well as allowing mailers to launch interactive digital campaigns. Additionally, we are focusing on opportunities to pilot new products and innovate with customers and the mail industry to enhance the value of hard-copy communication. We believe these service offerings will further improve the value of both *First-Class Mail* and *Marketing Mail*.

However, due to the COVID-19 pandemic, our mail volumes began an accelerated decline in late March 2020, and this decline continued through the fiscal year. It is possible that the COVID-19-driven sudden drop in mail volumes, our most profitable revenue stream, may never fully recover to levels prior to the pandemic, similar to how mail volumes dropped significantly and never recovered following the Great Recession of 2007-2009.

Our Shipping and Packages category has historically experienced revenue and volume growth as a result of our successful efforts to compete in shipping services, including last-mile e-commerce fulfillment markets and Sunday delivery, as well as end-to-end markets. We continue to focus on responding to customers' needs by implementing marketing campaigns and maintaining strategic business partnerships that help us capitalize on the growing e-commerce business.

However, our Shipping and Packages category is subject to intense competition which significantly impacts both revenue and volume. Certain major customers continue to divert volume from our network by in-sourcing the last-mile delivery. These customers are also aggressively pricing their products and services in order to fill their networks and grow package density. However, as a result of the surge in e-commerce growth driven by the COVID-19 pandemic, some of these customers have temporarily increased their volume to our network during the pandemic due to their delivery capacity constraints.

**First-Class Mail**

*First-Class Mail*, presented in this report as a mail class and a Market-Dominant service category, includes cards, letters and flats. Prices for *First-Class Mail*, our most profitable service category, are the same regardless of the distance the mail travels. Because *First-Class Mail* is classified by law as Market-Dominant, price increases are currently generally subject to a price cap based on the Consumer Price Index for All Urban Consumers ("CPI-U").

*First-Class Mail* volume continues to decline, with decreases of 4.2% in 2020, 3.1% in 2019 and 3.6% in 2018, due to the continuing migration toward electronic communication and transaction alternatives. *First-Class Mail* generated approximately 40.7%, 38.5%, and 38.7% of the total volume, but represented approximately 32.5%, 34.3% and 35.3% of operating revenue for the three years ended September 30, 2020, 2019 and 2018, respectively.

For the year ended September 30, 2020, *First-Class Mail* revenue fell by $653 million, or 2.7%, on a volume decline of 4.2%, compared to the prior year. The most significant factor contributing to the declining trend in *First-Class Mail* revenue and volume has been the continuing migration from mail to electronic communication and transaction alternatives, which has been exacerbated by the COVID-19 pandemic and may never fully recover to levels prior to the pandemic. A protracted loss in customer demand for our services will continue to have a material effect on *First-Class Mail* revenue and volume.

For the year ended September 30, 2019, *First-Class Mail* revenue decreased by $517 million, or 2.1%, on a volume decline of 3.1%, compared to the prior year. The most significant factor contributing to the declining trend in *First-Class Mail* revenue and volume was the continued migration from mail to electronic communication and transaction alternatives.

**Marketing Mail**

*USPS Marketing Mail* (more commonly, *Marketing Mail*), presented as a mail class and a Market-Dominant service category, generally consists of advertising, newsletters, catalogs, small marketing parcels and other printed matter not required to be processed and delivered as *First-Class Mail* or *Periodicals*. *Marketing Mail* price increases are generally capped at the rate of inflation because they are classified by law as Market-Dominant.

*Marketing Mail* has generally been challenged by commercial mailers' increasing use of digital and mobile advertising, which had grown to an estimated 39% of total U.S. advertising expenditures as of calendar year 2019. This trend has been exacerbated by the COVID-19 pandemic, as many of our commercial customers, especially those with consumer-facing businesses, had curtailed their operations, operated at a lower capacity and/or suspended their marketing and advertising expenditures. However, *Marketing Mail* has benefited from strong political and election mail volumes every two years during general election cycles, although revenue from these services is largely offset by its associated costs. We expect these volumes will be greater during the calendar year 2020 election cycle than in previous cycles due to the pandemic. We began to benefit from the volume impact of the calendar year 2020 elections during the second half of fiscal year 2020 and expect this benefit to continue into fiscal year 2021.

*Marketing Mail* generated approximately 49.7%, 53.1% and 52.8% of our total volume, but represented approximately 19.0%, 23.0% and 23.4% of operating revenue for the three years ended September 30, 2020, 2019 and 2018, respectively.

*Marketing Mail* has generally proven to be a relatively resilient marketing channel, and its value to U.S. businesses remains strong due to healthy customer returns on investment, and better data and technology integration. Between 2009 and 2016, *Marketing Mail* experienced relatively flat volume. However, *Marketing Mail* volume began to decline at a greater rate beginning in 2017 and continued to decline through the first half of 2018. Aside from a volume rebound between the second half of 2018 through the first quarter of 2019 that was driven by increases in political and election mail associated with the 2018 mid-term elections, *Marketing Mail* resumed its volume decline during the remainder of 2019, as a result of digital and mobile advertising growth.

For the year ended September 30, 2020, *Marketing Mail* revenue decreased approximately $2.5 billion, or 15.0%, on a volume decline of 15.2%, compared to the prior year. Despite these declines, *Marketing Mail* revenue and volume were favorably impacted by an increase in political and election mail as we began to benefit from the impact of the 2020 general elections.

For the year ended September 30, 2019, *Marketing Mail* revenue decreased by $153 million, or 0.9%, on a volume decline of 2.1%, compared to the prior year. Despite these declines, *Marketing Mail* revenue and volume were favorably impacted by an increase in political and election mail. If not for the positive impact of political and election mail associated with the 2018 mid-term election season during the first quarter of 2019, *Marketing Mail* revenue and volume would have decreased by an even greater extent during the year ended September 30, 2019.

**Shipping and Packages**

Our Shipping and Packages business consists largely of Competitive services that can be priced to reflect current market conditions, although prices are subject to review by the PRC for legal compliance. These include *Priority Mail, Priority Mail Express*, *Parcel Select, Parcel Return, First-Class Package Services - Retail* and *First-Class Package Services - Commercial.* Shipping and Packages also includes *Bound Printed Matter* and Media and Library Mail, however these are considered Market-Dominant services and are therefore subject to price caps.

As a percentage of operating revenue, Shipping and Packages generated approximately 39.0%, 32.0% and 30.4% of our total revenue for the years ended September 30, 2020, 2019 and 2018, respectively. As a percentage of total volume, Shipping and Packages represented 5.7%, 4.3% and 4.2% of our total volume for the years ended 2020, 2019 and 2018, respectively. Prices for these Competitive services increased in January 2020, January 2019 and January 2018, and the average price increases varied by Competitive services product.

Our Shipping and Packages business has continued to experience revenue growth as a result of our successful efforts to compete in shipping services, including "last-mile" e-commerce fulfillment markets and Sunday delivery, as well as end-to-end markets, driven by consumers' continued use of online shopping. To accommodate the temporary surges in volume and to avoid service disruptions during the peak holiday seasons, and the surge in e-commerce associated with the COVID-19 pandemic, we have increased Sunday delivery service for some of our customers in limited U.S. markets and added non-career employees in accordance with our labor agreements.

Although the COVID-19 pandemic has caused a surge in the nation's use of e-commerce resulting in higher Shipping and Packages volumes, we do not expect that the increases in our Shipping and Packages revenues will continue to offset losses in mail service revenue caused by the pandemic in the long term. However, we believe that consumer behavior has evolved during the pandemic as the nation has increasingly relied on the safety and convenience of e-commerce. While the future is uncertain, we believe this new normal in the e-commerce marketplace is expected to sustain package volume at elevated levels relative to prior-year trends.

For the year ended September 30, 2020, Shipping and Packages revenue grew by 25.3% on volume growth of 18.8%, compared to the prior year. Revenue growth was driven by the surge in e-commerce resulting from the COVID-19 pandemic. Revenue increased at a greater rate than volume due to the January 2020 price increases applicable to certain Competitive services.

For the year ended September 30, 2019, Shipping and Packages revenue grew by 6.1% on volume growth of 0.3%, compared to the prior year. The reasons for the slowing volume growth rate in 2019 were: 1) strong competition, 2) growing package density leading some large shippers to divert volume away from us by in-sourcing the last-mile delivery, and 3) a narrowing of the shipping cost differential between us and our competitors due to several years of above-average price increases.

The following table details our operating revenue and volume for Shipping and Packages for the years ended September 30, 2020, 2019 and 2018 by each service:

| *(in millions)* | 2020 | 2019 | 2018 |
|---|---|---|---|
| **Shipping and Packages revenue:** | | | |
| Priority Mail Services[1] | $ 12,528 | $ 10,444 | $ 10,094 |
| Parcel Services[2] | 8,941 | 7,053 | 6,671 |
| First-Class Package Services[3] | 6,236 | 4,465 | 3,878 |
| Package Services | 832 | 821 | 824 |
| **Total Shipping and Packages revenue** | **$ 28,537** | **$ 22,783** | **$ 21,467** |
| **Shipping and Packages volume:** | | | |
| Priority Mail Services[1] | 1,296 | 1,123 | 1,113 |
| Parcel Services[2] | 3,608 | 3,022 | 3,115 |
| First-Class Package Services[3] | 1,848 | 1,398 | 1,279 |
| Package Services | 571 | 622 | 642 |
| **Total Shipping and Packages volume** | **7,323** | **6,165** | **6,149** |

[1] Includes *Priority Mail*, a 1-3 business day delivery service; *Priority Mail Express*, an overnight delivery service available 365 days per year; and *USPS Retail Ground,* a retail-only Competitive service priced identically and functionally equivalent to *Priority Mail* for Zones 1-4.

[2] Includes *Parcel Select*, *Parcel Return* and *Marketing Mail Parcels*.

[3] Includes *First-Class Package Services - Retail* and *First-Class Package Services - Commercial*.

### *Priority Mail Services*

Priority Mail Services is our Shipping and Packages subcategory that includes *Priority Mail*, *Priority Mail Express* and *USPS Retail Ground. Priority Mail* and *Priority Mail Express* services allow customers the ability to send documents and packages requiring expedited transportation and handling. While Priority Mail Services revenue has grown year-over-year, its service offerings are somewhat price sensitive and its growth rate has been lower than other Shipping and Packages subcategories due to intense competition.

Priority Mail Services accounted for 43.9%, 45.8% and 47.0% of Shipping and Packages revenue for the three years ended September 30, 2020, 2019 and 2018, respectively. However, Priority Mail Services only accounted for approximately 17.7%, 18.2% and 18.1% of Shipping and Packages volume for the three years ended September 30, 2020, 2019 and 2018, respectively.

For the year ended September 30, 2020, Priority Mail Services revenue grew by 20.0% on volume growth of 15.4%, compared to the prior year. Revenue and volume increased due to the surge in e-commerce from the COVID-19 pandemic, while revenue grew at a greater rate than volume for both periods, largely due to the January 2020 price increases applicable to Competitive services.

For the year ended September 30, 2019, Priority Mail Service revenue grew by 3.5% on volume growth of 0.9%, compared to the prior year. The January 2019 price increase applicable to Competitive services contributed to higher growth in revenue versus volume for the year.

### *Parcel Services*

Our Parcel Services subcategory includes Competitive services *Parcel Select* and *Parcel Return*, as well as Market-Dominant service *USPS Marketing Mail Parcels* (more commonly, *Marketing Mail Parcels*). *Parcel Select* and *Parcel Return Services* largely consist of "last-mile" deliveries, offered to large bulk shippers that perform their own sorting before conveying parcels to us for processing and/or delivery deeper into our network. Parcel Services represented 31.3%, 31.0% and 31.1% of Shipping and Packages revenue for the three years ended September 30, 2020, 2019 and 2018, respectively. This subcategory is primarily a last-mile service that bypasses much of our infrastructure and therefore is one of our lowest-priced package services, and as a result, produces a lower-contribution per piece when compared to many of our other services.

Revenue from Parcel Services increased 26.8% with volume growth of 19.4%, for the year ended September 30, 2020, compared to the prior year. Revenue and volume increased due to the surge in e-commerce from the COVID-19 pandemic. Revenue grew at a greater rate than volume largely due to the January 2020 price increases applicable to Competitive services.

For the year ended September 30, 2019, revenue from Parcel Services increased 5.7%, despite a volume decline of 3.0%, respectively, compared to the prior year. Volume declined for the year ended September 30, 2019, as certain major commercial customers' diverted volume from our *Parcel Select* and *Parcel Return* services to their own last-mile delivery networks. Revenue grew for the year despite the volume decline largely due to the January 2019 price increases applicable to Competitive services.

***First-Class Package Services***

Our First-Class Package Services subcategory includes the competitively priced *First-Class Package Service - Retail*, a Competitive service targeted to retail customers for packages weighing up-to-13 ounces, and *First-Class Package Service - Commercial,* a Competitive service targeted to commercial customers for packages weighing up-to-16 ounces. This subcategory offers commercial customers that ship primarily lightweight fulfillment parcels the lowest-priced unrestricted end-to-end shipping option in the marketplace. First-Class Package Services revenue and volume performance has experienced strong increases for the past several years, particularly from our commercial customers. These increases are primarily attributable to growth in e-commerce.

For the year ended September 30, 2020, First-Class Package Services revenue increased 39.7% on volume growth of 32.2%, compared to the prior year. For the year ended September 30, 2019, First-Class Package Services revenue grew by 15.1% on volume growth of 9.3%, compared to the prior year. Revenue and volume increased in 2020 due to the surge in e-commerce from the COVID-19 pandemic. The higher growth in revenue compared to volume for both 2020 and 2019 was due in large part to the impacts of the January 2020 and January 2019 price increases applicable to Competitive services.

***Package Services***

Our Package Services subcategory is a Market-Dominant service that includes both Bound Printed Matter for materials up-to-15 pounds and Library and Media Mail for materials up-to-70 pounds. For the year ended September 30, 2020, Package Services revenue increased 1.3%, despite a volume decline of 8.2%, compared to the prior year. For the year ended September 30, 2019, Package Services revenue decreased by 0.4% on a volume decline of 3.1%, compared to the prior year.

**International Mail**

Our International Mail category includes several services that enable customers, both domestic and abroad, to send international mail, including postcards, envelopes, flats and packages, with either standard or express delivery options. For the years ended September 30, 2020, 2019 and 2018, International Mail revenue represented 3.3%, 3.5% and 3.7% of total operating revenue, respectively.

"Outbound" services, which allow customers in the U.S. to send mail and packages to other countries, generate approximately one-half of International Mail revenue but only one-third of its volume, whereas "inbound" services are the opposite, generating two-thirds of International Mail volume but only one-half of its revenue.

The U.S. is a member of the Universal Postal Union (“UPU”), a specialized agency of the United Nations that facilitates the exchange of international mail. We are the designated postal operator for the U.S. under the UPU, and payments to the designated postal operator for the delivery of foreign origin letter-post mails are known as “terminal dues.”

In September 2019, the UPU members had a special meeting, known as the "Extraordinary Congress," to discuss the terminal dues system. During that meeting, UPU members agreed to establish a new remuneration system that allowed us to self-declare rates beginning in July 2020. Other foreign postal operators may also reciprocally apply rates at full-self-declared rates at that time.

In February 2020, we officially invoked the provision of the new remuneration system to self-declare rates, and our self-declared rates went into effect in July 2020.

For the year ended September 30, 2020, International Mail revenue decreased by 3.0% and volume declined 14.7%, compared to the prior year. The decrease in revenue is directly correlated to the declines in both inbound and outbound volume due to various pricing and economic factors, including the impact of the COVID-19 pandemic on transportation logistics and the global economy in general, as well as the impact of the higher self-declared rates. However, revenue would have declined further were it not for the rate increases from the self-declared rates.

For the year ended September 30, 2019, International Mail revenue decreased by 5.9%, and volume declined 9.1%, compared to the prior year. The decrease in revenue is directly correlated to the declines in both inbound and outbound volume due to various pricing, political and economic factors.

**Periodicals**

*Periodicals*, also presented as a mail class and a Market-Dominant service category, includes services designed for newspapers, magazines and other periodical publications whose primary purpose is providing publications to subscribers or other users. For the year ended September 30, 2020, *Periodicals* revenue decreased by 14.2% and volume decreased by 13.6%, compared to the prior year. For the year ended September 30, 2019, *Periodicals* revenue decreased by 6.5% and volume decreased by 7.2%, compared to the prior year.

*Periodicals* revenues and volumes have been in decline for more than a decade as trends in hard-copy reading behavior and shifts of advertising away from print have decreased this business. The *Periodicals* category is not expected to rebound as electronic content continues to grow in popularity with the public.

**Other**

Other services revenue includes ancillary services such as *Certified Mail*, *PO Box* services, and *Return Receipt* services. Also included in this category are money orders, passport services, signature-on-delivery services, insurance, and our own internal mail, which generates no revenue and has volume that can vary significantly from year to year.

For the year ended September 30, 2020, Other services revenue decreased by 10.8%, compared to the prior year, driven by a decrease in passport services due to government-imposed shelter-in-place orders and other movement restrictions associated with the COVID-19 pandemic. Revenue from *Certified Mail* and *Return Receipts* also decreased for the year ended September 30, 2020, compared to the prior year.

For the year ended September 30, 2019, Other services revenue increased by 2.8%, compared to the prior year. The January 2019 price increases applicable to various Market-Dominant and Competitive services contributed to this increase, with *PO Box* services among the larger revenue increases in this category for the year ended September 30, 2020, compared to the prior year. Passport services also experienced a revenue increase resulting from an April 2018 price increase which impacted both 2019 and 2018.

### *OPERATING EXPENSES*

To align our resources with anticipated future mail and package volume, we continue to aggressively manage operating expenditures under management's control.

As described above in *Operating Revenue and Volume*, we anticipate that the continued migration of communications and commerce to electronic media, which has been accelerated by the COVID-19 pandemic, will adversely affect *First-Class Mail* volume and revenue for the foreseeable future. Our mail processing and distribution network was designed to provide overnight delivery service of *First-Class Mail* within specified delivery areas for a much higher volume of mail than we are required to process and deliver today, and the network's legacy capabilities are not completely aligned to today's mail mix and volumes. Consequently, certain of our processing and distribution facilities continue to operate at less than full capacity. In addition, the costs of transporting and delivering packages on a per-piece basis are higher than the costs for *First-Class Mail*.

Our challenge to contain costs is compounded by the continuing increase in the number of delivery points. When combined with the impact of lower mail volume, the average number of pieces delivered per delivery point per day has decreased from approximately 5.5 pieces in 2007 to 3.0 pieces in 2020, a reduction of approximately 46%.

As discussed in greater detail below, our operating expenses for the year ended September 30, 2020, reflect the impacts of the COVID-19 pandemic. Specifically, we have incurred greater expenses for personal protective equipment (PPE), higher air transportation costs due to lower availability of commercial air flights, and greater compensation costs representing both increased sick leave and labor costs associated with the higher volumes in our labor-intensive Shipping and Packages category.

**Compensation and Benefits**

Compensation and benefits, our largest operating expense category, represented approximately 59%, 59% and 62% of our total operating expenses for the years ended September 30, 2020, 2019 and 2018, and consist of costs related to our active career and non-career employees.

For the year ended September 30, 2020, compensation and benefits increased by 2.5%, compared to a 2.1% increase the prior year. The following table provides the components of compensation and benefits for active employees as of September 30, 2020, 2019 and 2018:

| *(in millions)* | 2020 | 2019 | 2018 |
|---|---|---|---|
| Compensation | $ 39,754 | $ 38,756 | $ 37,795 |
| Employee health benefits | 5,188 | 5,121 | 5,169 |
| Social security | 2,256 | 2,176 | 2,128 |
| TSP | 1,194 | 1,149 | 1,113 |
| Other | 338 | 317 | 320 |
| **Total compensation and benefits** | **$ 48,730** | **$ 47,519** | **$ 46,525** |

***Compensation***

During the year ended September 30, 2020, compensation expense increased $998 million, or 2.6%, compared to 2019, driven by additional overtime hours needed for the higher Shipping and Packages volumes during the second half of the year, contractual wage increases and new paid leave categories provided during the second half of the year, including negotiated sick leave provided to our bargaining-unit employees, and new sick leave as provided by the Families First Coronavirus Response Act, enacted as Public Law 116-127 (“FFCRA”). The FFCRA authorized new paid sick leave that may be used by an employee in COVID-19 situations for themselves, or to care for sick family members, as well as Family and Medical Leave Act-protected unpaid and paid leave if a school/child care is closed. The FFCRA provides the means for companies and other government entities to receive federal reimbursement for payment of this FFCRA leave; however, we are not eligible for such reimbursement. For the year ended September 30, 2020, we have incurred $278 million in expense associated with this FFCRA leave. However, due to our unique status, we will not receive any reimbursement.

During the year ended September 30, 2019, compensation expense increased $961 million, or 2.5%, compared to 2018. The increase was attributable primarily to contractual wage adjustments, including general wage increases and COLAs, as well as additional overtime hours incurred during the calendar year 2018 holiday season.

Workforce Composition

The composition of our workforce is a significant factor of our compensation expense. The following table provides the approximate totals of career and non-career employees as of September 30, 2020, 2019 and 2018:

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Career employees | 496,000 | 497,000 | 497,000 |
| Non-career employees | 148,000 | 136,000 | 137,000 |
| **Total employees** | **644,000** | **633,000** | **634,000** |

Our overall workforce increased approximately 11,000, or 1.7%, between 2020 and 2019. This was driven by an increase in non-career employees of approximately 12,000 employees, or 8.8%, reflecting additions to the workforce to address the surge in Shipping and Packages volumes associated with the COVID-19 pandemic, but partially offset by a decrease in career employees of approximately 1,000 or 0.2%, reflecting normal attrition as we continue to align our workforce with declining mail volume.

Our overall workforce decreased 1,000, or 0.2%, between 2019 and 2018. This small decrease reflected normal attrition as we continued to align our workforce with declining mail volume.

During 2020 and 2019, we converted approximately 41,000 and 36,000 employees, respectively, from non-career to career status, as dictated by our operational needs and contractual provisions. These conversions were necessary to offset attrition of career employees, primarily through retirement. Although career employees are more costly than non-career, these converted employees represent a significant savings relative to the career employees they replace who were compensated on a higher wage scale.

Work Hours

Work hours are a significant component of compensation expense. We are committed to minimizing costs by using the appropriate mix of work hours based on the complement and the assessment of relative cost for each work hour type. In some instances, the use of overtime hours may be necessary to meet service standard commitments and obligations for mail delivery or to serve as a more cost effective option, as in some instances, the cost of an overtime hour is less than the cost of a straight-time hour due to benefits and the flexibility offered by overtime.

During the year ended September 30, 2020, total work hours increased by approximately 1 million, or 0.1%, compared to 2019, influenced by an increase of approximately 1.5 million delivery points during 2020 and the increased work hours needed for the higher Shipping and Packages volumes during the third and fourth quarter. The total increase for the year ended September 30, 2020, included an increase in overtime work hours of approximately 13 million, offset by a decrease of straight-time hours of approximately 12 million, compared to 2019.

During the year ended September 30, 2019, total work hours increased by approximately 4 million, or 0.3%, compared to 2018, influenced by an increase of approximately 1.3 million delivery points during 2019, and the higher Shipping and Packages volume during the calendar year 2018 and 2017 holiday seasons. The total increase for the year ended September 30, 2019, was driven by an increase in overtime work hours, compared to 2018.

Collective Bargaining Agreements

As of September 30, 2020, approximately 90% of our employees were covered by collective bargaining agreements. The contracts with the four labor unions representing the majority of our employees include provisions granting annual increases and COLAs, which are linked to the CPI-W. For further discussion of collective bargaining agreements, see *Item 8. Financial Statements and Supplementary Data*, *Notes to Financial Statements*, *Note 11 - Commitments and Contingencies*.

Non-bargaining Salaries

Annual salary increases for non-bargaining unit employees only occur through a Pay-For-Performance ("PFP") system. With only minor exceptions, no COLA or locality pay programs apply to non-bargaining unit employees. PFP salary increases averaged 1.4% for 2019 (implemented in January 2020), 1.1% for 2018 (implemented in January 2019) and 2.0% for 2017 (implemented in January 2018).

***Employee Health Benefits***

Our expense for employee health benefits (which includes the employer portion of Medicare taxes) is most significantly impacted by the number of employees electing coverage and the premium costs of the selected plans. Our active employees may participate in FEHB, which is administered by OPM. Average FEHB premium increases were 4.0% in 2020, 1.2% in 2019 and 4.0% in 2018. Separate from FEHB, we offer our own self-insured healthcare plan to certain non-career employees who are ineligible for FEHB. We account for employee benefit costs as an expense in the period in which our contributions to the plans under the program are due.

Employee health benefits expense was $5.2 billion for the year ended September 30, 2020, a 1.3% increase from 2019. For the year ended September 30, 2019, the expense was $5.1 billion, a 0.9% decrease compared to the 2018 expense of $5.2 billion.

Our employer contribution rates for the majority of our employees are subject to collective bargaining agreements. Our share of healthcare premiums for employees represented 72.0%, 72.0% and 72.8% of premiums for 2020, 2019 and 2018, respectively. Employee health benefits expense was 10.6%, 10.8% and 11.1% of compensation and benefits expense for the years ended September 30, 2020, 2019 and 2018, respectively.

***Social Security***

We record our contributions to Social Security as an expense in the period during which the contribution is incurred. We recognize the expense for each period's legally required contribution and record a liability for any contribution due and unpaid at the end of each reporting period.

For the years ended September 30, 2020, and 2019, our Social Security expenses increased 3.7% and 2.3%, respectively, compared to the previous years. These increases were generally consistent with the increases in compensation for the respective years, as described above in *Compensation*, with a slightly larger increase in 2020 due to the changing workforce composition of CSRS and FERS employees.

The *CARES Act* offers certain employers the ability to defer payment of the employer's share of the Social Security payroll tax on wages incurred from March 27, 2020, through December 31, 2020. In accordance with this provision, we began deferring these payments in April 2020, and intend to continue the deferral for the remainder of calendar year 2020 for an estimated total deferral amount of approximately $1.7 billion. One half of these deferred payments are due by December 31, 2021, and the other half by December 31, 2022. As of September 30, 2020, we had deferred payments totaling approximately $1.2 billion. This amount is recorded within *Other noncurrent liabilities* in the accompanying *Balance Sheets*.

***Thrift Savings Plan***

Career employees may participate in the Thrift Savings Plan ("TSP"), a defined contribution retirement savings and investment plan administered by the Federal Retirement Thrift Investment Board. Our TSP expenses are related only to our contributions for FERS employees who participate in the TSP. For FERS employees who participate in TSP, the Postal Service contributes 1% of basic pay and matches voluntary employee contributions up to an additional 4% of basic pay.

We record our contributions to the TSP as an expense in the period during which the obligation is incurred. We recognize the expense for each period's legally required contribution and record a liability for any contribution due and unpaid at the end of each reporting period.

For the years ended September 30, 2020, and 2019, our TSP matching contributions increased 3.9% and 3.2%, respectively, compared to the previous years. These increases were generally consistent with the increases in compensation for the respective years, as described above in *Compensation*, with a slightly larger increase in 2020 due to the changing workforce composition of CSRS and FERS employees.

**Retirement Benefits**

The majority of our career employees participate in one of two U.S. government defined benefit pension programs, CSRS and FERS, based on the starting date of their employment with us or another U.S. government employer.

We incur normal costs (the amount established by OPM as the employer portion of retirement benefits for participating employees and their qualifying survivors, upon retirement, for each employee's current year of service) for FERS employees; however, by law we do not incur normal costs for CSRS retirement benefits. FERS employees are further categorized as either FERS, FERS - Revised Annuity Employees ("FERS - RAE"), or FERS - Further Revised Annuity Employees ("FERS - FRAE") depending on whether their date of hire was before, during, or after calendar year 2013, respectively.

Our retirement benefits expenses consist of three components: 1) FERS normal costs, 2) CSRS unfunded retirement benefits amortization, and 3) FERS unfunded retirement benefits amortization. These retirement benefits expense components are described in further detail in the sections below.

The following table presents the retirement benefits expenses for the years ended September 30, 2020, 2019 and 2018:

| *(in millions)* | | 2020 | | 2019 | | 2018 |
|---|---|---|---|---|---|---|
| FERS normal costs | $ | 3,804 | $ | 3,520 | $ | 3,479 |
| CSRS unfunded retirement benefits amortization[1] | | 1,817 | | 1,617 | | 1,440 |
| FERS unfunded retirement benefits amortization[2] | | 1,343 | | 1,060 | | 958 |
| **Total retirement benefits** | **$** | **6,964** | **$** | **6,197** | **$** | **5,877** |

[1] Expense for the annual payments due September 30 of the respective year, calculated by OPM to amortize the unfunded CSRS retirement obligation. Payments are to be made in equal installments through 2043.

[2] Expense for the annual payment due September 30 of the respective year, calculated by OPM to amortize the unfunded FERS retirement obligation. Payments are to be made over a 30-year rolling period based on OPM invoices.

Our retirement benefits expenses increased 12.4% and 5.4% for the years ended September 30, 2020, and 2019, compared to the previous years. The 2020 increase was due to rising employer contributions rates for FERS normal cost, as well as increases in the CSRS and FERS unfunded retirement benefits amortization, as discussed below. For additional information, see *Note 12 - Retirement Plans*.

***FERS Normal Costs***

We record our contributions to FERS normal costs as an expense in the period during which the contribution is due. We recognize the expense for each period's legally required contribution and record a liability for any contribution due and unpaid at the end of each reporting period. The employer contributions and employee withholdings not yet remitted to OPM were $195 million and $157 million at September 30, 2020, and 2019, respectively, and were recorded as a current liability within *Retirement benefits* in the accompanying *Balance Sheets*.

OPM establishes our FERS normal cost contribution rates as a percentage of basic pay. The following table presents our contribution rates for the years ended September 30, 2020, 2019 and 2018:

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| FERS | 14.7% | 13.7% | 13.7% |
| FERS-RAE | 12.8% | 11.9% | 11.9% |
| FERS-FRAE | 11.7% | 10.7% | 10.7% |

For the years ended September 30, 2020, and 2019, FERS normal costs increased 8.1% and 1.2%, respectively, compared to the previous years. As most of our employees participate in FERS and FERS-FRAE, these increases were consistent with the general increases in compensation and employer normal cost contribution percentages for the respective years, as described above in *Compensation*.

### ***CSRS and FERS Unfunded Retirement Benefits***

OPM periodically notifies us regarding its revaluation of unfunded CSRS and FERS retirement benefits. The amounts we record as expenses for our unfunded CSRS and FERS liabilities may be significantly impacted by changes in actuarial assumptions used by OPM to revalue the unfunded liabilities. Prior to 2018, OPM calculated these obligations using government-wide economic and demographic data, rather than Postal Service-specific demographics and economic assumptions. In October 2017, OPM issued a new rule announcing its intent to calculate future unfunded CSRS and FERS obligations using Postal Service-specific demographic assumptions, effective with the October 2018 actuarial report. We record the expenses for our unfunded CSRS and FERS liabilities within *Retirement benefits* in the accompanying *Statement of Operations*.

The Board of Actuaries of the Civil Service Retirement System ("Board of Actuaries") annually makes recommendations regarding the interest, salary inflation, COLA and investment return rate assumptions used to determine the funded status of both CSRS and FERS. The Board of Actuaries recommended changes to these actuarial assumptions in 2018 and 2020, which OPM adopted, but recommended no changes in 2019. The 2020 changes included lowering the discount rate from 4.25% to 4.00%, as well as decreasing the inflation rate, the COLA rate and the general wage increase rate.

OPM invoiced us $1.8 billion, $1.6 billion, and $1.4 billion for our CSRS unfunded benefits payments due September 30, 2020, 2019, and 2018, respectively. OPM also invoiced us $1.3 billion, $1.1 billion, and $958 million for our FERS unfunded benefits payments, due September 30, 2020, 2019, and 2018, respectively. We did not make these payments in order to preserve liquidity and to ensure that our ability to fulfill our primary universal service mission was not placed at undue risk. As of the date of this report, we have not incurred any penalties or negative financial consequences as a result of not making our CSRS and FERS unfunded benefit payments to OPM.

As described elsewhere in this report, OPM calculated that our portion of the CSRS and FERS plans were underfunded by $32.6 billion and $25.5 billion, respectively, as of September 30, 2019.

Our CSRS and FERS plans are subject to the following constraints and risks:

- Assets contributed to the plans by a single participating U.S. government employer may be used to provide benefits to employees of other participating employers.
- If a participating U.S. government employer ceases contributing to a plan, any unfunded obligations of the plan may be borne by the remaining participating employers.
- Federal law mandates our participation in the plans. If a change in the law permitted us to discontinue this participation, we may be required to contribute to the discontinued plan(s) an amount based on any underfunded status, referred to as a withdrawal liability, if such a liability exists at that time.
- Assets are invested in special purpose Treasury securities, rather than allocated among a variety of investment assets.

<u>Funded Status</u>

OPM administers the CSRS and FERS plans via the Civil Service Retirement and Disability Fund ("CSRDF"). Although CSRDF is a single fund that does not maintain a separate account for each participating U.S. government employer, PAEA requires certain disclosures regarding obligations and changes in net assets as if the funds were separate. Such disclosures, which are presented below, are based solely on information OPM has provided to us. Because CSRS and FERS are not subject to the rules and regulations of the *Pension Protection Act of 2006*, typical plan measurements such as zone status, financial improvement plan status, or rehabilitation plan status are not available for these plans.

Each October, OPM provides us with an actuarial report prepared for the purpose of providing financial reporting information with respect to our CSRS and FERS pension obligations, in accordance with PAEA requirements. The actuarial report contains CSRS and FERS information specific to our pension obligations regarding:

1. The funded status of pension obligations;
2. Components and analysis of net change in actuarial liabilities and fund balances;
3. Cost methods and assumption underlying actuarial valuations; and
4. Actual and estimated contributions to and outlays.

In its October 2020 report to the Postal Service, OPM provided estimated 2020 information for the CSRS and FERS actuarial liabilities and fund balances. The final actuarial liability and fund balances as of September 30, 2020, may differ from these estimates, as data will be updated, and actuarial assumptions may be revised during the course of the year.

The following table provides OPM's calculations of the funded status of CSRS and FERS for our employees as of September 30, 2020 (estimated), 2019 and 2018, and represents the most recent data available. The actuarial liability presented below represents our share of the CSRS and FERS actuarial liabilities, as estimated by OPM. The fund balance presented below represents contributions made by us to CSRS and FERS, plus a return on such contributions as estimated by OPM.

| *(in billions)* | **Estimated[1] 2020** | **Actual 2019** | **Actual 2018** |
|---|---|---|---|
| **CSRS** | | | |
| Actuarial liability as of September 30 | $ 177.6 | $ 182.7 | $ 185.8 |
| Fund balance per OPM[2] | 145.6 | 150.1 | 157.9 |
| (Less) amount past due[3] | (1.8) | — | — |
| **Unfunded** | $ (33.8) | $ (32.6) | $ (27.9) |
| **FERS** | | | |
| Actuarial liability as of September 30 | $ 152.6 | $ 146.3 | $ 136.9 |
| Fund balance per OPM[4] | 127.0 | 120.8 | 117.5 |
| (Less) amount past due[5] | (1.3) | — | — |
| **Unfunded** | $ (26.9) | $ (25.5) | $ (19.4) |
| **Total CSRS and FERS** | | | |
| Actuarial liability as of September 30 | $ 330.2 | $ 329.0 | $ 322.7 |
| Fund balance per OPM | 272.6 | 270.9 | 275.4 |
| (Less) amount past due | (3.1) | — | — |
| **Unfunded** | $ (60.7) | $ (58.1) | $ (47.3) |

[1] The most current actual data from OPM is as of September 30, 2019. The estimated information for 2020 was provided by OPM, but is subject to change when final 2020 information is provided in 2021.

[2] The CSRS estimated fund balance for 2020 provided by OPM assumes we made the amortization payments due on September 30, 2020. However, no such payment was made.

[3] Amount past due represents the CSRS amortization payment due on September 30, 2020. However, no such payment was made.

[4] The FERS estimated fund balance for 2020 provided by OPM assumes we made the amortization payment due on September 30, 2020. However, no such payment was made.

[5] Amount past due represents the FERS amortization payment due on September 30, 2020. However, no such payment was made.

We have reported this information based on the same valuation techniques and economic assumptions that are used by the Board of Actuaries to establish the normal cost and funding requirements for the plans. OPM actuarial valuations utilize the long-term economic assumptions established by the Board of Actuaries. These economic assumptions are prepared for U.S. government employers as a whole, rather than those specific to the Postal Service.

As disclosed in OPM's *Civil Service Retirement and Disability Fund Annual Report* dated February 2020, which reported data for government-wide employers for 2018, the most current period available, Postal Service assets accounted for approximately 17% of the FERS' total.

As a result of the unfunded liabilities for CSRS and FERS, OPM calculated an amortization schedule to pay down the FERS deficit over 30 years, and, accordingly, billed us $1.3 billion, $1.1 billion and $958 million for 2020, 2019 and 2018, respectively. In accordance with the provisions of the PAEA, OPM calculated an amortization schedule to pay down the CSRS deficit by September 30, 2043, and, accordingly, billed us $1.8 billion, $1.6 billion and $1.4 billion for 2020, 2019 and 2018, respectively. As noted above, none of these amounts were paid and all are included within *Retirement benefits* in the accompanying *Balance Sheets*.

The following table provides U.S. government-wide information for plan assets, accumulated benefit obligations, the unfunded actuarial liability amounts and percentage funded for both the CSRS and FERS retirement plans, as published in OPM's *Civil Service Retirement and Disability Fund Annual Report* (dated February 2020), for the year ended September 30, 2018, the date of the most recent available information, as well as comparative Postal Service amounts for the same period:

| *($ in billions)* | **U.S. Government (including Postal Service)** | **Postal Service** | **Postal Service as a % of the U.S. Government** |
|---|---|---|---|
| **CSRS:** | | | |
| Plan assets | $ 243.0 | $ 157.9 | 65.0% |
| Accumulated benefit obligations | 1,059.0 | 185.8 | 17.5% |
| Unfunded actuarial liability | $ (816.0) | $ (27.9) | |
| % Funded | 22.9% | 85.0% | |
| **FERS:** | | | |
| Plan assets | $ 685.8 | $ 117.5 | 17.1% |
| Accumulated benefit obligations | 850.1 | 136.9 | 16.1% |
| Unfunded actuarial liability | $ (164.3) | $ (19.4) | |
| % Funded | 80.7% | 85.8% | |

When CSRS and FERS data for the Postal Service were excluded from the 2018 U.S. government-wide data, the CSRS plan was less than 10% funded, while the FERS plan was less than 80% funded. This is because the Postal Service funding of CSRS and FERS was 85% or more for each.

Cost Methods and Assumptions

The Board of Actuaries recommended revisions to certain government-wide demographic assumptions including additional future mortality improvement, effective for the September 30, 2018 valuation. The following table details the long-term economic assumptions recommended by the Board of Actuaries and included in OPM's valuation reports for the years ended September 30, 2020, 2019 and 2018:

| | **2020** | | **2019** | | **2018** | |
|---|---|---|---|---|---|---|
| | **CSRS** | **FERS** | **CSRS** | **FERS** | **CSRS** | **FERS** |
| Rate of inflation | 2.40% | 2.40% | 2.50% | 2.50% | 2.50% | 2.50% |
| Long-term COLA | 2.40% | 1.92% | 2.50% | 2.00% | 2.50% | 2.00% |
| Actual COLA applied | 1.60% | 1.60% | 2.80% | 2.00% | 2.00% | 2.00% |
| Long-term salary increases | 2.65% | 2.65% | 2.75% | 2.75% | 2.75% | 2.75% |
| Actual salary increases | 2.75% | 2.75% | 2.75% | 2.75% | 3.10% | 3.10% |
| Long-term interest rate | 4.00% | 4.00% | 4.25% | 4.25% | 4.25% | 4.25% |

Net Periodic Costs

The following, provided by OPM, details the changes in our estimated actuarial liability for CSRS and FERS as of September 30, 2020 (estimated) and 2019, and represents the most recent data available:

| *(in billions)* | Estimated[1] 2020 | Actual 2019 |
|---|---|---|
| **CSRS** | | |
| Actuarial liability as of October 1 | $ 182.7 | $ 185.8 |
| + Contributions[2] | 0.1 | 0.1 |
| - Benefit disbursements | (12.2) | (12.2) |
| + Interest expense | 7.0 | 7.6 |
| + Actuarial loss | — | 1.4 |
| **Actuarial liability as of September 30** | **$ 177.6** | **$ 182.7** |
| **FERS** | | |
| Actuarial liability as of October 1 | $ 146.3 | $ 136.9 |
| + Normal costs | 4.7 | 4.4 |
| - Benefit disbursements | (4.3) | (3.8) |
| + Interest expense | 5.9 | 5.8 |
| + Actuarial loss | — | 3.0 |
| **Actuarial liability as of September 30** | **$ 152.6** | **$ 146.3** |
| **Total actuarial liability as of September 30** | **$ 330.2** | **$ 329.0** |

[1] The most current actual data from OPM is as of September 30, 2019. The estimated information for 2020 was provided by OPM, but is subject to change when final 2020 information is provided in 2021.

[2] Contributions for CSRS consist of employee contributions only.

Components of Net Change in Plan Assets

As described above, CSRDF is a single fund and does not maintain separate accounts for CSRS and FERS or for individual U.S. government employers. The investment holdings of the CSRDF consist entirely of long-term special-issue U.S. Treasury securities with maturities of up to 14 years. The long-term securities bear interest rates ranging from 0.75% to 5.13%, while the short-term securities bear an interest rate of 0.75%.

The assumed rate of return on the CSRS fund balance was 4.25% for 2019 and 4.25% for 2018, and the actual rates of return were 2.85% and 2.90%, respectively. For the FERS fund, the assumed rate of return was 4.25% for 2019 and 4.25% for 2018, while the actual rates of return were 2.84% and 2.99%, respectively. The projected long-term rate of return for both the CSRS and FERS fund balances for 2020 was 4.00%.

The following table details OPM's five-year estimates for our CSRS and FERS contributions (both employee and employer) based on the population of employees as September 30, 2019, unfunded liability amortization payments and benefit payments:

| *(in billions)* | **CSRS** | | | |
|---|---|---|---|---|
| **Year** | **Employee contributions** | **Postal Service contributions** | **Amortization payments** | **Total scheduled contributions and payments** |
| 2021 | $ 0.1 | $ — | $ 1.8 | $ 1.9 |
| 2022* | — | — | 1.8 | 1.8 |
| 2023* | — | — | 1.8 | 1.8 |
| 2024* | — | — | 1.8 | 1.8 |
| 2025* | — | — | 1.8 | 1.8 |
| *(in billions)* | **FERS** | | | |
| **Year** | **Employee contributions** | **Postal Service contributions** | **Amortization payments** | **Total scheduled contributions and payments** |
| 2021 | $ 0.5 | $ 3.9 | $ 1.3 | $ 5.7 |
| 2022 | 0.5 | 3.8 | 1.3 | 5.6 |
| 2023 | 0.5 | 3.7 | 1.3 | 5.5 |
| 2024 | 0.5 | 3.5 | 1.3 | 5.3 |
| 2025 | 0.5 | 3.4 | 1.3 | 5.2 |

* Employee contributions in 2022, 2023, 2024 and 2025 are projected to continue, but at less than $0.1 billion per year.

The following information, provided by OPM, details the components of the net change in our estimated portion of plan assets for CSRS and FERS for the years ended September 30, 2019, and 2018, and represents the most recent data available:

| *(in billions)* | **Actual 2019** | **Actual 2018** |
|---|---|---|
| **CSRS** | | |
| Net assets as of October 1 | $ 157.9 | $ 165.3 |
| + Contributions | 0.1 | 0.1 |
| - Benefit disbursements | (12.2) | (12.1) |
| + Investment income | 4.3 | 4.6 |
| **CSRS net assets as of September 30** | **$ 150.1** | **$ 157.9** |
| **FERS** | | |
| Net assets as of October 1 | $ 117.5 | $ 113.6 |
| + Contributions | 4.0 | 3.9 |
| - Benefit disbursements | (3.9) | (3.3) |
| + Investment income | 3.2 | 3.3 |
| **FERS net assets as of September 30** | **$ 120.8** | **$ 117.5** |

## Retiree Health Benefits

Retirees who participated in FEHB for the five years immediately preceding their retirement may continue to participate in the plan during retirement. Qualifying survivors of retirees are also eligible to receive benefits.

Under PAEA, we are obligated to fully fund the PSRHBF for the estimated employer's portion of retiree health benefit obligations. As such, our total cost for retiree health benefits consists of two components: 1) the normal cost of the estimated retirement health benefits of active career employees, and 2) the amortization of the unfunded liability of the PSRHBF. Given that we cannot direct the costs, benefits or funding requirements of these plans, it accounts for program expenses under multiemployer plan accounting rules, and recognize an expense when the payment is due.

In addition to changes in premium amounts each year, several other factors could significantly affect our future retiree health benefits expenses, including investment performance of the PSRHBF, changes in demographics, changes in actuarial assumptions and increased or decreased benefits to participants. See *Item 8. Financial Statements and Supplementary Data*, *Notes to Financial Statements*, *Note 13 - Health Benefits Plans*, *Retiree Health Benefits* for additional information.

### *Normal Costs and Retiree Health Benefits Premiums*

In accordance with PAEA, beginning in 2017, the PSRHBF began funding our share of retiree health benefit premiums, and we were obligated to begin paying into the PSRHBF the normal costs of retiree health benefits attributable to the current year of service of our employees. We received invoices from OPM in the amounts of $3.9 billion, $3.8 billion and $3.7 billion for normal costs that we were obligated to pay by September 30, 2020, 2019 and 2018, respectively. We did not make these payments in order to preserve liquidity and to ensure that our ability to fulfill our primary universal service mission was not placed at undue risk. As of the date of this report, we have not incurred any penalties or negative financial consequences as a result of not making our retiree health benefits normal cost payments to OPM.

According to OPM, the number of Postal Service annuitants receiving retiree health benefits was approximately 498,500, 497,000 and 495,000 for the years ended September 30, 2020, 2019 and 2018, respectively.

### *PSRHBF Funded Status*

OPM valuations of post-retirement health liabilities and normal costs were prepared in accordance with Federal Accounting Standards Advisory Board Statement of Federal Financial Accounting Standards ("SFFAS") No. 5 and SFFAS No. 33, which require the use of the aggregate entry age normal actuarial cost method. Demographic assumptions are consistent with the pension valuation assumptions, but decrements are based upon counts or numbers rather than dollars.

The following information, provided by OPM, details the PSRHBF funded status. The amounts invoiced but not paid to the PSRHBF are reported in *Retiree health benefits* in the accompanying *Balance Sheets*.

| *(in billions)* | 2020 | 2019 |
|---|---|---|
| Beginning actuarial liability at October 1 | $ 114.4 | $ 114.0 |
| + Actuarial gain | (2.0) | (3.7) |
| + Normal costs | 4.1 | 3.9 |
| + Interest at 4.4% and 4.4%, respectively | 4.0 | 3.9 |
| Subtotal net periodic costs | $ 6.1 | $ 4.1 |
| - Premium payments | (3.9) | (3.7) |
| Actuarial liability at September 30 | $ 116.6 | $ 114.4 |
| - Fund balance at September 30 | (94.0) | (92.2) |
| + Amounts past due | 51.9 | 47.2 |
| **Unfunded obligations at September 30** | **$ 74.5** | **$ 69.4** |

The determination of the liability assumes a single equivalent discount rate of 3.4% based on the most recent ten-year historical average yield curve. The normal cost, which is on a per-participant basis, is computed to increase annually by a variable medical inflation rate which is assumed to be 4.6% per annum as of the valuation date, grading down to an ultimate value of 3.2% in 2075. This results in a single equivalent trend rate of 4.4%. Normal costs are derived from the current FEHB on-rolls population with an accrual period from entry into FEHB to assumed retirement. The amounts and variables used to determine the liability are the same as the assumptions used under OPM's methodology, except that the average government share of premium payments for annuitants is substituted for annuitant medical costs less annuitant premium payments.

Because the calculation of the PSRHBF liability involves several areas of judgment, estimates of the liability could vary significantly depending on the assumptions used. For example, by changing only the interest rate, a 1% increase or decrease in the interest rate would result in an unfunded obligation ranging from $59 billion to $93 billion, respectively, as of September 30, 2020. Similarly, a 1% increase or decrease in the rate would result in an unfunded obligation ranging from $54 billion to $88 billion, respectively, as of September 30, 2019. Alternatively, if the actuarial liability had been calculated using the Board of Actuaries long-term rate assumption of 4.0%, the liability would have been approximately $108 billion, or 8% lower, as of September 30, 2020, and approximately $103 billion, or 10% lower, as of September 30, 2019.

For our current annuitants, the share of premium payments for other federal employers is adjusted to reflect the pro rata share of civilian service to total service for which we are responsible. The pro rata adjustment is made by applying calculated factors based upon actual payments that vary by the age and Medicare status of enrollees. For our active employees, the pro-rata share in retirement is assumed to be 95% of the total.

PSRHBF assets are comprised entirely of long-term, special-issue U.S. Treasury securities with maturities of up to 13 years bearing interest rates from 0.75% to 5.00%. The following table details the PSRHBF fund balance, including both contributions and interest receivables, as reported by OPM:

| *(in billions)* | 2020 | 2019 |
|---|---|---|
| Beginning balance (including both contribution and interest receivables) at October 1 | $ 92.2 | $ 90.1 |
| Amounts past due[1] | 4.6 | 4.6 |
| Earnings at 2.6% and 2.7%, respectively | 1.1 | 1.2 |
| Payments for annuitant premiums[2] | (3.9) | (3.7) |
| Net increase | $ 1.8 | $ 2.1 |
| **Fund balance (including both contribution and interest receivables) at September 30** | **$ 94.0** | **$ 92.2** |

[1] Amounts past due represent the combined amount of normal costs of retiree health benefits and unfunded liability amortization due on September 30 of the respective years. However, no such payments were made.

[2] Includes premium payments for certain annuitant/employees under workers' compensation coverage.

Although PAEA dictates the PSRHBF prefunding requirements, the amounts and the timing of required funding could change at any time with enactment of a new law or an amendment of existing law. The total amount of payments due to the PSRHBF through September 30, 2020, and 2019, was $51.9 billion and $47.2 billion, respectively. In order to preserve liquidity to ensure that we would be able to continue to fulfill our primary universal service mission, we did not make the annual payments due on September 30, 2020, 2019 and 2018, for the PSRHBF unfunded liability amortization of $810 million, $789 million and $815 million, respectively, or the normal costs of retiree health benefits of $3.9 billion, $3.8 billion and $3.7 billion, respectively.

The following information, provided under the PAEA mandate, details OPM's preliminary five-year estimates for payments into the PSRHBF for normal costs and unfunded liability expenses, and payments from the PSRHBF for annuitant premiums:

| *(in billions)* | Estimated payments into the PSRHBF | | | | Estimated payments out of the PSRHBF |
|---|---|---|---|---|---|
| **Year** | **Normal costs** | **Amortization of unfunded liability** | **Payable to PSRHBF** | **Total** | **Annuitant premiums** |
| 2021 | $ 4.0 | $ 0.9 | $ 51.9 | $ 56.8 | $ 4.1 |
| 2022 | 4.2 | 0.9 | — | 5.1 | 4.4 |
| 2023 | 4.4 | 0.9 | — | 5.3 | 4.6 |
| 2024 | 4.6 | 0.9 | — | 5.5 | 4.9 |
| 2025 | 4.8 | 0.9 | — | 5.7 | 5.1 |

## Workers' Compensation

Our employees who are injured on the job are covered by the FECA, administered by the DOL's OWCP, which makes all decisions regarding injured workers' eligibility for benefits. We are legally mandated to participate in the federal workers' compensation program. Our workers' compensation expense reflects the impacts of changes in discount rates, as well as the actuarial valuation of new workers' compensation cases and revaluation of existing ones. Additionally, we reimburse the DOL for all workers' compensation benefits paid to or on behalf of our employees, plus an administrative fee.

Under FECA, workers' compensation claims for many types of injuries cannot be settled through lump-sum payments, and in some instances regarding those claims, compensation may be paid over many years. Federal law grants COLA rates to those claims, and these factors result in substantially higher costs to us than would likely result if we managed our own claims. Additionally, since we do not manage the FECA program, we have no ability to control the significant administrative costs associated with managing the claims and payments process.

On a daily basis we focus on costs that can be managed in the course of normal business operations. Certain aspects of workers' compensation can be managed through human resource initiatives, safety measures and training. Other workers' compensation costs cannot be managed in the course of normal business operations and are less predictable, including expenses caused by actuarial revaluation and discount rate changes. We subtract the cash payments made by DOL on behalf of workers' compensation obligations, which are relatively predictable, from total workers' compensation expense in order to determine the non-cash component of workers' compensation expense (benefit), a non-GAAP financial measure.

For additional information, see *Item 8. Financial Statements and Supplementary Data, Notes to Financial Statements*, *Note 14 - Workers' Compensation*.

Annually, we reimburse DOL for all workers' compensation benefits paid to or on behalf of our employees. The following table presents the components of workers' compensation expense, including the cash payments made by DOL on behalf of workers' compensation obligations, for the years ended September 30, 2020, 2019 and 2018:

| *(in millions)* | 2020 | 2019 | 2018 |
|---|---|---|---|
| Impact of discount rate changes | $ 1,909 | $ 2,365 | $ (1,066) |
| Actuarial revaluation of existing cases | (390) | (139) | (205) |
| Costs of new cases | 1,302 | 1,195 | 1,194 |
| Administrative fee | 82 | 83 | 81 |
| **Total workers' compensation expense** | **$ 2,903** | **$ 3,504** | **$ 4** |
| (Less) cash payments made by DOL on behalf of workers' compensation obligations | (1,298) | (1,349) | (1,393) |
| **Total non-cash component of workers' compensation expense (benefit) (non-GAAP)** | **$ 1,605** | **$ 2,155** | **$ (1,389)** |

For the year ended September 30, 2020, workers' compensation expense decreased $601 million, compared to 2019, due primarily to changes in discount rates, but also influenced by higher expense for new cases that was partially offset by lower estimated expenses associated with existing cases. For the year ended September 30, 2019, workers' compensation expense increased $3.5 billion compared to 2018, primarily due to changes in discount rates.

***Impact of Discount Rate Changes***
For the year ended September 30, 2020, the portion of workers' compensation expense attributable to the impact of discount rate changes resulted in a decrease in expense of $456 million, compared to 2019. This decrease in expense was driven by a less significant decrease in discount rates in 2020 compared to 2019, an event outside of management's control.

For the year ended September 30, 2019, the portion of workers' compensation expense attributable to the impact of discount rate changes resulted in a net increase of approximately $3.4 billion, compared to 2018. This increase in expense was driven by a significant decrease in discount rates in 2019 compared to an increase in 2018, an event outside of management's control.

***Actuarial Revaluation of Existing Cases and Costs of New Cases***
Changes in actuarial valuation are primarily attributable to the combined impacts of routine changes in actuarial estimation, the progression of existing cases and updated COLA assumptions, which are largely outside of management's control.

For the year ended September 30, 2020, the cost of new workers' compensation cases increased $107 million, compared to 2019, while the actuarial revaluation of existing cases decreased by $251 million for the year ended September 30, 2020, compared to 2019.

For the year ended September 30, 2019, the cost of new workers' compensation cases increased $1 million, compared to 2018. For the year ended September 30, 2019, the actuarial revaluation of existing cases increased by $66 million, compared to 2018.

**<u>Transportation</u>**
Transportation expense includes the contracted costs we incur to transport mail and other products between our facilities, comprising highway, air and international transportation contracts, plus contract delivery services.

With the exception of contract delivery services, our costs to deliver mail and other products to delivery points are not included within *Transportation* but in *Compensation and benefits* for employee costs and in *Other operating* *expenses* for fuel, vehicle maintenance and repair, and other costs. Furthermore, transportation expense does not include the compensation of employees responsible for transporting mail and other products between our facilities.

Variations in the volume and weight of transported mail and packages and the mode of transportation utilized has had a significant impact on our transportation expenses. The table below details the components of transportation expense for the years ended September 30, 2020, 2019 and 2018:

| *(in millions)* | | 2020 | | 2019 | | 2018 |
|---|---|---|---|---|---|---|
| Highway | $ | 4,753 | $ | 4,517 | $ | 4,319 |
| Air | | 3,461 | | 3,070 | | 2,892 |
| International | | 555 | | 556 | | 611 |
| Other | | 45 | | 41 | | 39 |
| **Total transportation expense** | **$** | **8,814** | **$** | **8,184** | **$** | **7,861** |

For the year ended September 30, 2020, total transportation expense increased $630 million, or 7.7%, compared to the prior year. Air transportation expenses increased $391 million, or 12.7%, compared to the prior year, due to higher Shipping and Packages volumes and higher expenses for chartered air transportation as travel restrictions associated with the COVID-19 pandemic limited commercial air carrier availability, partially offset by lower average jet fuel prices. Highway transportation expenses increased $236 million, or 5.2%, compared to the prior year, primarily due to an increase in the number of miles driven as modes of transportation shifted as travel restrictions associated with the COVID-19 pandemic limited commercial air carrier availability and a one-time accounting adjustment whereby we recorded transportation expenses associated with embedded leases in certain of our transportation contracts during the first quarter of 2020. This increase in highway transportation expenses was partially offset by lower average diesel fuel prices.

For the year ended September 30, 2019, total transportation expense increased $323 million, or 4.1%, compared to the prior year. Highway transportation expenses increased $198 million, or 4.6%, compared to the prior year, primarily due to higher unit costs per mile due to supplier cost pressures resulting in part from a national shortage of long-haul truck drivers, and higher diesel fuel prices. Air transportation expenses increased $178 million, or 6.2%, compared to the prior year, primarily due to higher jet fuel prices and increased volumes on multiple carriers. International transportation expenses decreased $55 million, or 9.0%, compared to the prior year, primarily due to a decline in *Priority Mail International* and other international service volumes.

**Other Operating Expenses**

The following table details other operating expenses for the periods ended September 30, 2020, 2019 and 2018:

| *(in millions)* | | 2020 | | 2019 | | 2018 |
|---|---|---|---|---|---|---|
| Supplies and services | $ | 3,088 | $ | 2,819 | $ | 2,991 |
| Depreciation and amortization | | 1,706 | | 1,697 | | 1,669 |
| Rent and utilities | | 1,757 | | 1,714 | | 1,694 |
| Vehicle maintenance service | | 618 | | 627 | | 629 |
| Delivery vehicle fuel | | 432 | | 491 | | 502 |
| Information technology and communications | | 946 | | 916 | | 913 |
| Rural carrier equipment maintenance | | 586 | | 588 | | 552 |
| Miscellaneous other | | 983 | | 1,059 | | 747 |
| **Total other operating expenses** | **$** | **10,116** | **$** | **9,911** | **$** | **9,697** |

For the year ended September 30, 2020, Other operating expenses increased 2.1% compared to the prior year, largely driven by an increase in supplies and services. Supplies and services costs increased 9.5%, for the year ended September 30, 2020, compared to the prior year, largely due to additional spending associated with the COVID-19 pandemic.

Other operating expenses increased 2.2% during the year ended September 30, 2019, compared to the prior year, largely driven by an increase in miscellaneous other expenses, partially offset by a decrease in supplies and services. The miscellaneous other component increased approximately 42% due to the impact of the lower 2018 expenses associated with contingent liabilities pertaining to labor and employment matters.

### *NON-OPERATING REVENUES AND EXPENSES*

**Interest and Investment Income**
We generate income from investments in securities issued by the U.S. Treasury. Investment income was $72 million, $131 million and $102 million for the years ended September 30, 2020, 2019 and 2018, respectively. Although our average investment amounts were higher in 2020, as compared to 2019, interest income decreased during 2020 due to lower average interest rates.

In addition to the income we generate from investments, we record imputed interest on the future installment payments that are owed to us under the *Revenue Forgone Reform Act of 1993* (the "RFA"). Under the RFA, Congress agreed to reimburse us $1.2 billion in 42 annual installments of $29 million each through 2035 for services we performed in prior years. Imputed interest for the future revenue forgone installments was $19 million, $20 million and $20 million for the years ended September 30, 2020, 2019 and 2018, respectively. See *Item 8. Financial Statements and Supplementary Data*, *Notes to Financial Statements*, *Note 16 - Revenue Forgone* for additional information.

**Interest Expense**
Interest expense was $214 million, $240 million and $251 million, for the years ended September 30, 2020, 2019 and 2018, respectively. Although our average debt outstanding was higher in 2020, as compared to 2019, interest expense decreased during 2020 due to lower average interest rates.

As of September 30, 2020, we had $3.0 billion in short-term debt, having an expected maturity of less than one year, and $11.0 billion in long-term debt with an expected maturity of longer than one year. Although long-term debt generally carries higher interest rates than short-term debt, financing a portion of our debt at longer-term fixed rates decreases our interest rate risk and interest expense volatility in future years, while rates on our floating-rate notes reset every three months, and are impacted by interest expense volatility.

## LIQUIDITY AND CAPITAL RESOURCES

As an "independent establishment of the executive branch of the Government of the United States," we receive no tax dollars for ongoing operations and have not received an appropriation for operational costs since 1982. We fund our operations chiefly through cash generated from operations and by borrowing from the FFB.

Our liquidity consists of unrestricted cash and cash equivalents plus our authorized borrowing capacity under the PRA. Our liquidity does not include financing authorized by and potentially available under the *CARES Act*. As of September 30, 2020, and September 30, 2019, we held unrestricted cash and cash equivalents of $14.4 billion and $8.8 billion, respectively. During the year ended September 30, 2020, our average daily liquidity balance was $13.2 billion. This amount represented approximately 66 days of liquidity available, which we define as average liquidity divided by our 2020 cash expenses (total expenses excluding depreciation expense, expenses accrued but unpaid for PSHRBF, CSRS and FERS and the deferred employer contributions for Social Security) and capital expenditures per calendar day (366 days per year). See *Item 8. Financial Statements and Supplementary Data*, *Notes to Financial Statements*, *Note 3 - Liquidity* for additional information.

Our liquidity has increased during the year ended September 30, 2020, due to the following:

1. Our net borrowing from the FFB of $3.0 billion;
2. The deferral of approximately $1.2 billion in payments for the employer contribution of Social Security benefits under provisions of the *CARES Act*;
3. The non-payments for statutorily specified PSRHBF, CSRS and FERS obligations, discussed in greater detail below; and
4. The increased revenue from the second-half surge in our Shipping and Packages business as a result of the COVID-19 pandemic.

Although our liquidity has improved over this past year, it remains insufficient to support an organization with approximately $82 billion in annual operating expenses, to make capital investments necessary for continuity of operations and to prepare for unexpected contingencies and economic events such as the COVID-19 pandemic.

In 2020, our cash balances were insufficient to pay the normal cost of retirement health benefits of $3.9 billion, and the PSRHBF, CSRS and FERS unfunded liability amortization expenses of $810 million, $1.8 billion and $1.3 billion, respectively, while also maintaining adequate liquidity. In 2019, our cash balances were insufficient to pay the normal cost of retirement health benefits of $3.8 billion, and the PSRHBF, CSRS and FERS unfunded liability amortization expenses of $789 million, $1.6 billion and $1.1 billion, respectively, while also maintaining adequate liquidity. As of September 30, 2020, past due amounts payable to the PSRHBF and to OPM for CSRS and FERS totaled $51.9 billion, $6.6 billion and $4.8 billion, respectively. We did not make any of these payments to preserve liquidity to ensure that our ability to fulfill our primary universal service mission was not placed at undue risk, and we have incurred no penalties or negative financial consequences resulting from our inability to make these payments.

Furthermore, we continue to face certain incremental risks caused by the COVID-19 pandemic, including the disruptions to our revenue mix and business operations, which have had a material effect on our financial condition and results of operations. Quarantines, shelter-in-place orders, and travel and logistics restrictions in connection with the outbreak have affected our consumer and commercial customers, as well as suppliers and mail service providers. The depth and duration of these disruptions remain uncertain. A protracted loss in customer demand for our services is likely to have a material adverse effect on our financial condition, results of operations and liquidity. The sudden drop in mail volumes, our most profitable revenue stream, is steep and may never fully recover to levels prior to the pandemic.

Our operations will require significant capital investment over the next few years to modernize and improve our processing and delivery infrastructure and update our delivery fleet in order to continue to meet our statutory obligation to provide prompt, reliable and efficient postal services to the nation. Furthermore, given our inability to raise cash through the issuance of additional debt beyond $3.0 billion annually and also the $15.0 billion debt ceiling, we do not have sufficient cash balances to meet all of our existing legal obligations, pay down our debt and make all of the critical investments in our infrastructure that are necessary for operational continuity and that have been deferred in recent years, and as a result we have prioritized our primary mission.

### *CASH FLOW ANALYSIS*

#### Operating Activities

Cash provided by operating activities increased by $1.9 billion, or 77.2%, for the year ended September 30, 2020, compared to the previous year. This increase is largely the result of the deferred payment for the employer contribution of Social Security benefits, along with increases in revenue, deferred revenue, and payables and accrued expenses, partially offset by the increase in expenses during 2020.

Cash provided by operating activities decreased by $302 million, or 10.9%, for the year ended September 30, 2019, compared to the previous year. This decrease was primarily the result of higher cash expenditures for compensation and benefits and transportation, along with an increase in receivables, partially offset by the increase in revenue.

The following table reflects our recent price increases:

| Service Category | Date Notice Filed with PRC | Effective Date of Increase | Average Increase % | Estimated Annual Revenue ($ in millions) |
|---|---|---|---|---|
| Market-Dominant | October 6, 2017 | January 21, 2018 | 1.9% | $ 655 |
| Competitive | October 6, 2017 | January 21, 2018 | 4.1% | 356 |
| Market-Dominant | October 10, 2018 | January 27, 2019 | 2.5% | 891 |
| Competitive | October 10, 2018 | January 27, 2019 | 7.4% | 870 |
| Market-Dominant | October 9, 2019 | January 26, 2020 | 1.9% | 605 |
| Competitive | October 9, 2019 | January 26, 2020 | varied by product | 583 |

On July 1, 2020, we implemented our new self-declared rates remuneration system, which effectively increased prices on our International Mail services.

On September 4, 2020, the PRC approved our plan to increase prices on certain Shipping and Packages subcategories on a time-limited basis. These increased prices will be effective October 18, 2020, through December 27, 2020, after which prices will revert to the 2020 pricing schedule. We estimate this temporary price increase would generate approximately $158 million.

On October 9, 2020, we filed a notice with the PRC of our intent to increase prices for Market-Dominant services by an average of 1.7%. We estimate that this price increase would generate approximately $516 million in annualized revenue. As of the date of this report, the PRC has not completed its review of this price increase plan.

**Investing Activities**

In 2020, we invested $1.8 billion in the purchase of property and equipment, which represents an increase of $391 million over 2019. In 2019, we invested $1.4 billion in the purchase of property and equipment, which represented an increase of $10 million from 2018.

We assign priority to proposed capital investments based on the following factors:

1. Needed for safety and/or health or legal requirements;
2. Required to provide service to our customers; and
3. Initiatives with a high return on investment and a short payback period.

Our delivery fleet includes approximately 140,000 vehicles that are at least 20 years old and need significant maintenance to continue in service. As a result, repair and maintenance costs, including applicable labor costs, have risen significantly in recent years. We purchased approximately 9,500 new vehicles to add to our fleet during 2020, at a cost of approximately $389 million. Additionally, we continue to invest in upgrades of letter sorting equipment that is at or near the end of its useful life, while also investing in equipment to fully capitalize on business opportunities in the growing package delivery market. To conserve cash, we have deferred facilities maintenance in instances where this could be done without adversely impacting employee and customer health or safety.

**Financing Activities**

Net cash provided by financing activities for the periods ended September 30, 2020, was approximately $3.0 billion, consisting of the $3.0 billion increase in debt during 2020 and cash payments on finance lease obligations. Net cash used in financing activities for the periods ended September 30, 2019, and 2018, was approximately $2.2 billion and $1.9 billion, respectively, consisting of the $2.2 billion and $1.8 billion reductions in our debt during 2019 and 2018, respectively, and cash payments on capital lease obligations.

### *DEBT*

The PRA authorizes us to raise cash through the issuance of debt obligations. The PRA requires us to notify the Secretary of the Treasury of our intent to issue debt, allowing the U.S. Treasury the first option to purchase such obligations. However, if the Secretary of the Treasury elects not to purchase such obligations, the PRA authorizes us to issue and sell such obligations to a party or parties other than the U.S. Treasury, which may include a transaction in the public or private debt markets.

In 1974, we began issuing debt through individual debt agreements to the Federal Financing Bank ("FFB"), a government-owned corporation under the general supervision of the Secretary of the Treasury. In 1999, we entered into a Note Purchase Agreement ("NPA") with the FFB to establish standardized procedures for issuing debt. Under the NPA, we were able to issue a series of notes with established terms and conditions by providing two days prior notice. Also under the NPA, we could make borrowings against two annually renewable revolving credit line facilities. These note arrangements and credit line facilities provided the flexibility to borrow short or long-term, using floating or fixed-rate instruments.

The NPA was extended each year through September 30, 2018, and in shorter increments between that date and August 31, 2019, at which time the NPA expired. This expiration did not affect the terms of any of our outstanding debt with the FFB as of September 30, 2020.

As of September 30, 2020, the aggregate principal balance of our outstanding debt was $14.0 billion, all of which was issued to the FFB under the NPA. Of this amount, $3.0 billion, relating to a revolving credit facility that survived the NPA into April 2020 and becomes due in April 2021, was recorded as *Short-term debt*, and $11.0 billion, consisting of fixed-rate and floating-rate notes with various maturities, was recorded as *Long-term debt* in the accompanying September 30, 2020, *Balance Sheet*.

As of September 30, 2020, we had no available incremental borrowing capacity under the PRA, due to our limitation on annual net increases in debt. However, by ending the fiscal year with $14.0 billion in outstanding debt, the borrowing capacity for 2021 will revert to $15.0 billion, and as of October 1, 2020, we will have $1.0 billion in remaining borrowing capacity.

Furthermore, notwithstanding our $15.0 billion statutory debt limit, and the $3.0 billion annual limitation on net new borrowings, the *CARES Act* allows us to borrow up to an additional $10.0 billion in financing from the U.S. Treasury to fund operating expenses. The U.S. Treasury may lend up to this amount at our request, upon terms and conditions mutually agreed upon. On July 29, 2020, we announced that we had reached an agreement in principle with the U.S. Treasury on the terms and conditions associated with the *CARES Act* financing. The agreed-upon terms and conditions must be memorialized in loan documents and satisfied before we will have access to the *CARES Act* borrowing, as limited by such terms and conditions.

While the NPA expiration did not remove our statutory ability to issue debt under the PRA, if we are unable to renew or replace the NPA with the FFB, we have no assurance that we would be able to raise additional cash through debt financing with the FFB, or that such financing would be provided on terms comparable to those under the NPA. Alternatively, if we were to use our authority under the PRA to issue and sell obligations to a party or parties other than the FFB, we have no assurance that we would be successful in raising additional cash, or that such financing would be provided on terms comparable to those under the NPA.

Absent the renewal of the NPA or similar arrangement with the FFB, we are confident that we will be able to maintain adequate liquidity through existing and new financing arrangements, as necessary and allowed by the PRA and the *CARES Act*, to fund our operations for the foreseeable future. Furthermore, we have no short-term plans to issue additional debt.

See *Item 8. Financial Statements and Supplementary Data*, *Notes to Financial Statements*, *Note 10 - Debt* for additional information.

### *LIQUIDITY OUTLOOK*

We continue to face challenges from the ongoing migration of mail to electronic alternatives, and we are legally limited under current law in how we can price our products and streamline our legacy business model. We do not have sufficient liquidity to meet all payment requirements due for legacy retirement and PSRHBF obligations that, barring legislative reform, will increase indefinitely.

Furthermore, we will need to increase our capital expenditures in order to address our aging facilities and delivery fleet and to upgrade our equipment to remain competitive in the marketplace and to ensure that we will be able to continue to meet our statutory obligation to provide prompt, efficient and reliable postal services to the nation.

With the anticipated continued migration to electronic communication and transactional alternatives, we continue to pursue long-term financial sustainability by focusing on the following items:

1. Continued efforts to control costs and drive efficiencies, innovate to keep mail relevant and generate increased revenue;
2. Postal Service reform legislation that addresses our overall cost structure and enhances our revenue-generating opportunities; and
3. Favorable outcome of the PRC's ten-year review (discussed below), which would allow additional pricing flexibility.

Without structural change to our business model and legislative change, the factors discussed above will continue to negatively impact us resulting in continuing losses and liquidity challenges for the foreseeable future. Although we continue to inform the executive branch, Congress, the PRC and other stakeholders of the immediate and long-term financial challenges we face, we have no assurances that our requests will result in meaningful reform in the foreseeable future.

**PRC Ten-year Review**

In December 2016, the PRC initiated its ten-year review of the system for regulating rates and classes for Market-Dominant products as required by the PAEA. The purpose of the ten-year review was to determine if the system for regulating such rates and classes has achieved the objectives Congress established in the PAEA. As part of this review, the PRC evaluated the CPI-U price cap for our Market-Dominant services.

On December 1, 2017, the PRC announced its initial decision in connection with its ten-year review. The PRC concluded that the rates system has not achieved its objectives and needs to be changed, primarily because it does not enable us to achieve our mission of providing prompt, reliable, and efficient universal postal services to the American people in a financially sustainable manner. The PRC's proposed changes to the system thus far do not include the elimination of the CPI-U price cap; however, its proposal does provide for some additional pricing authority within a price cap system.

On December 5, 2019, the PRC announced a revised decision in connection with its ten-year review. The PRC's proposed changes to the system still do not include the elimination of the CPI-U price cap. Moreover, while the revised proposal does include adjustment factors as we had requested to provide more flexibility for the regulatory system to better deal with future exogenous changes, the new proposal no longer includes any "true-up" authority to provide us with a reasonable opportunity to cover all of our costs. We continue to assert that the price cap should be eliminated, and that if the PRC insists on maintaining a price cap that the system must include both a resetting of rates so they are compensable, as well as adjustment factors to ensure the system is sufficiently flexible going forward.

The PRC was expected to issue a final rule after considering the comments and reply comments of any interested stakeholders, which were due no later than February 3, 2020, and March 4, 2020, respectively. As of the date of this report, the PRC has not issued a final rule. Additional information regarding the ten-year review may be found at the PRC website: *https://www.prc.gov/press-releases/prc-concludes-rate-system-has-not-achieved-necessary-objectives-and-issues-proposed*.

**2021 and Beyond**

The following table provides details of estimated future cash obligations as of September 30, 2020:

| *(in millions)* | Total | Past due and payable | 1 year or less | 2-3 years | 4-5 years | After 5 years |
|---|---|---|---|---|---|---|
| Debt[1] | $ 14,000 | $ — | $ 3,000 | $ 1,000 | $ 1,000 | $ 9,000 |
| Interest on debt[1] | 1,666 | — | 156 | 270 | 222 | 1,018 |
| CSRS unfunded liability (off balance sheet)[2] | 33,800 | — | 1,817 | 3,634 | 3,634 | 24,715 |
| CSRS unfunded liability - past due[3] | 6,615 | 6,615 | — | — | — | — |
| FERS unfunded liability (off balance sheet)[4] | 26,900 | — | 1,343 | 2,686 | 2,686 | 20,185 |
| FERS unfunded liability - past due[5] | 4,773 | 4,773 | — | — | — | — |
| PSRHBF unfunded liability (off balance sheet)[6] | 18,600 | — | 810 | 1,620 | 1,620 | 14,550 |
| PSRHBF unfunded liability - past due[7] | 3,369 | 3,369 | — | — | — | — |
| PSRHBF fixed payment and normal cost defaults - past due[8] | 48,496 | 48,496 | — | — | — | — |
| Workers' compensation[9] | 23,570 | — | 1,320 | 2,686 | 2,664 | 16,900 |
| Finance lease obligations[10] | 319 | — | 54 | 89 | 50 | 126 |
| Operating lease obligations[10] | 4,855 | — | 1,264 | 1,892 | 1,008 | 691 |
| Capital commitments[11] | 1,747 | — | 1,065 | 682 | — | — |
| Purchase obligations[11] | 3,574 | — | 994 | 1,738 | 842 | — |
| Employees' leave[12] | 2,382 | — | 181 | 331 | 282 | 1,588 |
| Social Security contributions[13] | 1,245 | — | 623 | 622 | — | — |
| **Total commitments** | **$195,911** | **$ 63,253** | **$ 12,627** | **$ 17,250** | **$ 14,008** | **$ 88,773** |

[1] For short-term debt, the table assumes the balance as of period end remains outstanding for all periods presented.

[2] Represents OPM's preliminary calculation of annual payments for amortization of the CSRS unfunded liability that we are obligated to pay through 2043.

[3] Represents cumulative amortization payments of the CSRS unfunded liability invoiced by OPM annually between 2017 and 2020, which the Postal Service defaulted on. OPM considers the defaulted amounts to be past due and payable, and the Postal Service continues to reflect these amounts as a current liability within *Retirement benefits* in the accompanying *Balance Sheets*.

[4] Represents OPM's preliminary calculation of annual payments for amortization of the FERS unfunded liability that we are obligated to pay on a rolling 30-year period.

[5] Represents cumulative amortization payments of the FERS unfunded liability invoiced by OPM annually between 2014 and 2020, which the Postal Service defaulted on. OPM considers the defaulted amounts to be past due and payable, and the Postal Service continues to reflect these amounts as a current liability within *Retirement benefits* in the accompanying *Balance Sheets*.

[6] Represents OPM's preliminary calculation of annual payments for amortization of the PSRHBF unfunded liability that we are obligated to pay through 2056.

[7] Represents cumulative amortization payments of the PSRHBF unfunded liability invoiced by OPM annually between 2017 and 2020, which the Postal Service defaulted on. OPM considers the defaulted amounts to be past due and payable, and the Postal Service continues to reflect these amounts as a current liability within *Retiree health benefits* in the accompanying *Balance Sheets*.

[8] Represents the cumulative annual prefunding payments to the PSRHBF between 2012 and 2016, and the normal cost payments invoiced annually between 2017 and 2020, all of which the Postal Service defaulted on. OPM considers the defaulted amounts to be due and payable, and the Postal Service continues to reflect these amounts as a current liability within *Retiree health benefits* in the accompanying *Balance Sheets*.

[9] Represents the undiscounted expected future workers' compensation payments plus $103 million in administrative fees, of which $82 million was due and paid October 15, 2020, and assumes no new cases in future years. The obligation to pay administrative fees in future years as determined by DOL is currently not estimated.

[10] Represents the undiscounted expected payments for lease obligations

[11] Capital commitments pertain to purchases of equipment, building improvements and vehicles for legally binding obligations. Purchase obligations pertain to items (including highway and air transportation obligations) that are expensed when received or amortized over a short period of time. These are not reflected on the accompanying *Balance Sheets*.

[12] Employees' leave includes both annual and holiday leave.

[13] Under the *CARES Act*, payments for the employer contribution of Social Security benefits through December 31, 2020 are deferred until December 31, 2021 and December 31, 2022, with half of the deferred amount due and payable on each of the respective dates.

As discussed previously, OPM now determines the amount of annual payments we will need to make to amortize the CSRS unfunded liabilities. We estimate this payment obligation, which was approximately $1.8 billion in 2020, will continue at approximately that amount annually going forward to 2043. Additionally, our FERS obligation was approximately $1.3 billion in 2020, and we estimate approximately that amount will continue annually for a rolling 30-year period.

Also as previously discussed, the PSRHBF began funding our share of retiree health benefit premiums in 2017, and we were to begin paying into the PSRHBF the normal costs of retiree health benefits. The amount that was payable on September 30, 2020, was approximately $3.9 billion. OPM estimates that the normal costs or retiree health benefits will increase by approximately $200 million per year for the next five years. Additionally, OPM will determine the amount of annual payments we will need to make to amortize the PSRHBF unfunded liabilities, which was $810 million in 2020. Based on OPM's five-year estimate for payments into the PSRHBF for amortization of unfunded liability expenses, we expect the annual obligation will continue at approximately that amount going forward.

We also estimate that our cash outlays for capital assets will amount to approximately $2.0 billion in 2021 and an additional $10.1 billion for the years 2022 through 2025. Although our future projections include these capital cash outlays, future cash flow from operations alone may not generate the cash needed for such necessary capital expenditures.

**Mitigating Circumstances**

We continue to pursue strategies within our control to increase operational efficiency and improve liquidity. We have managed capital in recent years by spending only what we believed was essential to maintain our existing facilities and service levels, and to increase efficiencies. However, continued increases in capital investment are necessary to upgrade our facilities, fleet of vehicles and processing equipment in order to remain operationally viable. Aggressive management of the business operations, as well as legislative and regulatory reforms that will enable us to increase revenue and reduce costs, will all be necessary to restore our financial health.

Our status as an independent establishment of the executive branch that does not receive tax dollars for our operations presents unique requirements and restrictions, but also potentially mitigates some of the financial risk that would otherwise be associated with a cash shortfall. With annual revenue of over $73 billion in 2020, generated almost entirely through the sale of postal services, a financially-sound Postal Service continues to be vital to U.S. commerce.

The U.S. economy benefits greatly from the Postal Service and the many businesses that provide the printing and mailing services that we support. Disruption of the mail would cause undue hardship to businesses and consumers as it would significantly inhibit the remittance of payments through the mail. In the event that circumstances leave us with insufficient cash, we would likely be required to implement additional contingency plans to ensure that mail deliveries continue. These measures may require us to prioritize payments to the FFB, our employees and suppliers ahead of some payments to U.S. government entities, as has been done in the past.

Furthermore, the U.S. government would likely prevent us from significantly curtailing or ceasing operations. We continue to inform the executive branch, Congress, the PRC and other stakeholders of the immediate and long-term financial challenges we face and the legislative and regulatory changes that are required to restore our financial stability.

## LEGISLATIVE UPDATE

As a self-funded independent establishment of the executive branch, our business model and operations are significantly influenced by congressional oversight and legislation. Additionally, Congress intended for us to be governed by an eleven-member Board of Governors which generally consists of our Postmaster General, a Deputy Postmaster General and nine independent Governors. The President appoints the Governors with the advice and consent of the Senate. We have six Senate-confirmed Governors currently in office.

### *APPROPRIATIONS*

As previously reported, the House passed the six-bill appropriations package (H.R. 7617) that includes the *Financial Services and General Government Appropriations Act, 2021* (H.R. 7668) on July 31, 2020. The bill includes $55.3 million in funding for free mail for the blind and overseas voting, requires continuation of six-day delivery and prohibits any of the appropriated funds from being used to consolidate or close small rural or other small Post Offices.

On October 1, 2020, the President signed into law the *Continuing Appropriations Act, 2021* (H.R. 8337/P.L. 116-159), a bill to provide continuing appropriations to federal agencies through December 11, 2020.

### *LEGISLATION*

H.R. 7969, the *Postal Vehicle Modernization Act,* a bill to authorize funding for the purchase of electric or zero-emission vehicles for our fleet, was introduced in the House on August 7, 2020. The bill, which includes identical provisions to those passed by the House in H.R. 2, the *Moving Forward Act,* on July 1, 2020, would authorize $25.0 billion in funding for us for the modernization of our infrastructure and operations, and reserves $6.0 billion for the purchase of new vehicles. It would require that any of the authorized funds used to purchase vehicles are spent on electric or zero-emission vehicles to replace our current right-hand-drive vehicles to the maximum extent practicable, mandating that 75% of the new fleet be such vehicles. The bill would also require that no less than 50% of the total number of new medium or heavy-duty vehicles that we purchase on or before December 31, 2029, are electric or zero-emission vehicles, and that all vehicles purchased after January 1, 2040, are electric or zero-emission. The bill was referred to the House Oversight and Reform Committee.

On August 22, 2020, the House passed H.R. 8015, the *Delivering for America Act*, a bill to maintain prompt and reliable postal services during the COVID-19 pandemic. The bill provides a $25.0 billion appropriation to the Postal Service Fund, to remain available until expended, of which $15 million would be transferred to the U.S. Postal Service Office of Inspector General for salaries and expenses. In addition, beginning the date of enactment and ending on the last day of the COVID-19 public health emergency or January 31, 2021 (whichever is later), the bill prevents us from implementing or approving any change to our operations or level of service from those in effect on January 1, 2020, that would impede prompt, reliable, and efficient services. The bill also requires us to reverse any initiative or action that is causing delay in processing or delivery or non-delivery of mail, regardless of whether such reversal requires payment of overtime. The bill now awaits Senate action, and a companion measure, S. 4585, was introduced in the Senate on September 16, 2020, and referred to the Senate Homeland Security and Governmental Affairs Committee.

H.R. 8123, the *Postal Service Emergency Assistance Act,* a bill to provide emergency appropriations to cover losses related to the COVID-19 crisis and to direct the Postmaster General and Board to develop a plan for ensuring our long-term solvency, was introduced in the House on August 28, 2020. The bill, which is identical to S. 4174, introduced in the Senate on July 2, 2020, would establish a Postal Service COVID-19 Emergency Fund within the U.S. Treasury and allow for an appropriation of up to $25.0 billion to remain available until September 30, 2022. Prior to accessing these funds, we would be required to certify in our Quarterly Reports and audited Annual Reports that there is a need to cover revenue losses or operational expenses resulting from the COVID-19 pandemic. It additionally clarifies that the Secretary of Treasury should make the borrowing authority provided in the *CARES Act* available to us at our request subject to the terms and conditions of the NPA as it was in effect on September 29, 2018. The bill was referred to the House Oversight and Reform and Budget Committees.

S. 4775, the *Delivering Immediate Relief to America's Families, Schools and Small Businesses Act*, a bill to provide continued emergency assistance, educational support, and health care response for individuals, families, and businesses affected by the COVID-19 pandemic, was introduced in the Senate on September 30, 2020. One provision of the bill would amend Section 6001 of the *CARES Act.* The provision would permit us to use the borrowed amounts only if our cash on hand is less than $8.0 billion, but would forgive us from any requirement to repay the borrowed amounts. The bill would require us to certify any expenditures made using the borrowed amounts in our Quarterly Reports and audited Annual Reports. The bill is currently awaiting further action by the Senate.

On October 1, 2020, the House passed H.R. 8406, an updated version of the *Health and Economic Recovery Omnibus Emergency Solutions Act,* which was considered as an amendment to H.R. 925. The Postal Service-related provisions of the bill are largely similar to those in the version that was approved by the House on May 15, 2020; however, the payment to the Postal Service Fund for revenue forgone due to the COVID-19 pandemic was reduced from $25.0 billion to $15.0 billion. The bill would also provide $15 million for the Postal Service Inspector General to conduct audits and investigations of activities carried out with the funds provided and repeal certain restrictions on the $10.0 billion in borrowing authority provided to us in the *CARES Act.* The bill is currently awaiting action by the Senate.

***POSTAL SERVICE REFORM***

The 116th Congress has not introduced any major Postal Service reform bills to date. Legislative and regulatory reforms remain critical for us to meet the needs of the American public, and we will continue to work with Congress and all of our stakeholders to enact Postal Service reform legislation.

***BOARD OF GOVERNORS***

On June 18, 2020, the Senate confirmed the nominations of William D. Zollars and Donald L. Moak to serve on the Board. Their appointments to the Board became effective on June 22, 2020, and there have been no additional nominations submitted since that time.

## FAIR VALUE MEASUREMENTS

We did not have any recognized gains as a result of fair valuation measurements in the years ended September 30, 2020, 2019 and 2018. All recognized losses have been incorporated into our financial statements and the unrecognized gains and losses are not considered to have a significant impact upon our operations. See *Item 8. Financial Statements and Supplementary Data*, *Notes to Financial Statements*, *Note 17 - Fair Value Measurement* for additional information.

## RELATED PARTY TRANSACTIONS

We have significant transactions with other U.S. government entities, which are considered related parties for reporting purposes. See *Item 8. Financial Statements and Supplementary Data*, *Notes to Financial Statements*, *Note 5 - Related Parties*.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make significant judgments and estimates to develop certain amounts reflected and disclosed in the financial statements. In many cases, alternative policies or estimation techniques may be used.

We maintain a thorough process to review the application of accounting policies and to evaluate the appropriateness of the many estimates that are required to prepare the financial statements. Management discusses the development and selection of these accounting policies and estimates with the Audit and Finance Committee of the Board. However, even under optimal circumstances, estimates routinely require adjustment based on changing circumstances and new or better information.

The three accounting policies that are considered either the most judgmental, or involve the selection or application of alternative accounting policies, and are material to the financial statements, are those related to the recording of workers' compensation costs, deferred revenue-prepaid postage and contingent liabilities. For further information, see *Item 8. Financial Statements and Supplementary Data*, *Notes to Financial Statements*, *Note 1 - Organization and Summary of Significant Accounting Policies*, *Note 14 - Workers' Compensation* and *Note 11 - Commitments and Contingencies*.

***WORKERS' COMPENSATION***

Workers' compensation costs reflected in our accompanying *Statements of Operations* are subject to actuarial estimates of future claim payments based upon past claim payment experience. Workers' compensation costs are highly sensitive to discount and inflation rates, which we update on a quarterly basis, and the length of time recipients are expected to stay on the compensation rolls. However, the annual cash payment for claims is relatively stable and predictable.

The discount rate reflects the current rate at which the workers' compensation liabilities could be effectively settled at the measurement date (e.g., the end of the accounting period). In setting the discount rates, we use the current yield, as of the measurement date, on U.S. Treasury securities that are matched to the expected duration of both the medical and compensation payments. Expected inflation in compensation claim obligations are estimated using the consensus inflation forecast from the Federal Reserve Bank of Philadelphia Survey of Professional Forecasters. For medical claims, we use the average rate of medical cost increases experienced by our workers' compensation claimants over the past five years as an estimate for future medical inflation. Workers' compensation liabilities are recorded in the accompanying *Balance Sheets* as *Workers' compensation costs* with both current and noncurrent components.

### *DEFERRED REVENUE-PREPAID POSTAGE*

*Deferred revenue-prepaid postage* is an estimate of postage that has been sold, but not yet used by customers. Under Accounting Standards Codification 606, *Revenue from Contracts with Customers*, revenue is recognized over time as mail is delivered, not when postage is purchased, and revenue is deferred and reflected in the accompanying *Balance Sheets* as *Deferred revenue-prepaid postage.* The deferred revenue estimate is developed and validated through mathematical and statistical methods of stamp usage trends. Three categories of postage sales account for the majority of *Deferred revenue-prepaid postage*: *Forever stamp* sales, metered postage and mail-in-transit, which is mail that has not reached its final destination.

### *CONTINGENT LIABILITIES*

The recording of contingent liabilities requires significant judgment in estimating potential losses for legal and other claims. Each quarter, we evaluate significant new claims and litigation for the probability of an adverse outcome. We record liabilities deemed both probable and estimable in the accompanying *Balance Sheets* within *Payables and accrued expenses* and *Other noncurrent liabilities*.

In addition, we review any prior claims and litigation and, when necessary, we adjust the liability balances for resolutions or revisions to prior estimates. Estimates of loss can therefore change as individual claims develop and additional information becomes available. We disclose the range of amounts for pending claims and litigations that are deemed to be reasonably possible of an unfavorable outcome, but do not accrue for or include such provisions in our financial statements.

## RECENT ACCOUNTING STANDARDS

New accounting guidance that we have recently adopted, as well as accounting guidance that has been recently issued but that we have not yet adopted, are included in *Item 8. Financial Statements and Supplementary Data*, *Notes to Financial Statements*, *Note 2 - Recent Accounting Pronouncements*.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The market rate risks we encounter are primarily related to foreign currency exchange rate fluctuations, interest rates and commodity prices. Historically, we have not entered into derivatives contracts or commodity instruments for trading or speculative purposes or to manage market risks.

## FOREIGN EXCHANGE RISK

While we operate outside of the U.S., and foreign currency fluctuations may favorably or unfavorably impact our reported earnings, we believe that foreign exchange risk is immaterial since the vast majority of our business transactions are denominated in U.S. dollars. Because of this, we estimate that a 1% increase or decrease in foreign exchange rates would not have a material impact on our financial statements.

## INTEREST RATE RISK

We are impacted by changes in interest rates in the normal course of our business operations as a result of our ongoing investing and financing activities, which include our floating-rate notes outstanding as well as our cash and cash equivalents. We assess our interest rate risks on a regular basis and currently estimate that a 1% increase in interest rates would have resulted in approximately a $64 million increase in 2020 interest expense relating to our floating-rate notes outstanding. A 1% decrease in interest rates would have resulted in approximately a $49 million decrease in 2020 investment income relating to our cash and cash equivalents.

We have interest rate risk associated with the floating-rate portion of our long-term debt, however we have no significant exposure to changing interest rates on the fixed-rate portion of such debt. As disclosed in *Item 8. Financial Statements and Supplementary Data*, *Notes to Financial Statements*, *Note 17 - Fair Value Measurement*, the fair value of our long-term debt was $11.9 billion and $11.4 billion for the years ended September 30, 2020, and 2019, respectively. We estimated the underlying fair value of our long-term debt using prices and discount rates provided by the FFB.

We also have interest rate risk associated with our workers' compensation liability, which is highly sensitive to changes in discount rates. An increase of 1% in the interest rates would decrease the liability at September 30, 2020, and related 2020 expense by approximately $2.3 billion. A decrease of 1% would have increased the liability at September 30, 2020, and related 2020 expense by approximately $2.9 billion. See *Item 8. Financial Statements and Supplementary Data*, *Notes to Financial Statements*, *Note 14 - Workers' Compensation* for further explanation.

## COMMODITY PRICES RISK

We currently have market risk for changes in fuel and natural gas costs. As of September 30, 2020, we estimated that a 1% increase in fuel and natural gas would have resulted in a $25 million increase in 2020 expense.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Governors of the United States Postal Service

### Opinion on the Financial Statements

We have audited the accompanying balance sheets of the United States Postal Service as of September 30, 2020 and 2019, the related statements of operations, changes in net deficiency, and cash flows for each of the three years in the period ended September 30, 2020, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the United States Postal Service at September 30, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB) and in accordance with auditing standards generally accepted in the United States of America, the United States Postal Service's internal control over financial reporting as of September 30, 2020, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated November 13, 2020 expressed an unqualified opinion thereon.

### Adoption of ASU No. 2016-02

As discussed in Note 2 to the financial statements, the United States Postal Service changed its method of accounting for leases effective October 1, 2019, due to the adoption of Accounting Standards Update ("ASU") No. 2016-02, *Leases* (Topic 842).

### Basis for Opinion

These financial statements are the responsibility of the United States Postal Service's management. Our responsibility is to express an opinion on these financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the United States Postal Service in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Emphasis of a Matter

As discussed more fully in Note 3 to the financial statements, the United States Postal Service (the Postal Service), an independent establishment of the executive branch of the U.S. Government, is dependent upon future actions of the U.S. Government to continue its operations in the ordinary course. The Postal Service has incurred recurring losses from its operations primarily due to constraints by laws and regulations and sustained declines in mail volume, which have been further negatively affected by the COVID-19 pandemic. The duration of the COVID-19 disruption remains uncertain, and the Postal Service's liquidity may continue to worsen as its losses from operations are projected to increase. Statutory and regulatory restrictions have constrained the ability of the Postal Service to implement strategies to improve efficiency, reduce costs and increase revenues. The Postal Service remains in default on past-due obligations of $63.3 billion related to retirement and retiree health benefits and does not expect to have sufficient cash to satisfy these obligations. The Postal Service does not, at this time, anticipate any legal consequences, under current law, from its inability to make these required payments. In addition, the Note Purchase Agreement with the Federal Financing Bank expired on August 31, 2019. This expiration did not affect the terms of the Postal Service's outstanding debt, but it could create additional uncertainty regarding the Postal Service's ability to obtain financing and maintain adequate liquidity in the future. Management believes, but no assurances can be given, that disruption of the mail would cause undue hardship to businesses and consumers, and in the event of a cash shortfall, the U.S. Government would likely prevent the Postal Service from significantly curtailing or ceasing operations.

/s/ Ernst & Young LLP

We have served as the United States Postal Service's auditor since 1972.

Tysons, Virginia
November 13, 2020

**UNITED STATES POSTAL SERVICE**
**STATEMENTS OF OPERATIONS**

| *(in millions)* | Year Ended September 30, 2020 | 2019 | 2018 |
|---|---|---|---|
| **Revenue** | | | |
| Operating revenue | $ 73,123 | $ 71,136 | $ 70,622 |
| Other revenue | 10 | 18 | 38 |
| **Total revenue** | **73,133** | **71,154** | **70,660** |
| **Operating expenses** | | | |
| Compensation and benefits | 48,730 | 47,519 | 46,525 |
| Retirement benefits | 6,964 | 6,197 | 5,877 |
| Retiree health benefits | 4,660 | 4,564 | 4,481 |
| Workers' compensation | 2,903 | 3,504 | 4 |
| Transportation | 8,814 | 8,184 | 7,861 |
| Other operating expenses | 10,116 | 9,911 | 9,697 |
| **Total operating expenses** | **82,187** | **79,879** | **74,445** |
| **Loss from operations** | **(9,054)** | **(8,725)** | **(3,785)** |
| Interest and investment income | 92 | 152 | 123 |
| Interest expense | (214) | (240) | (251) |
| **Net loss** | **$ (9,176)** | **$ (8,813)** | **$ (3,913)** |

*See accompanying notes to the financial statements.*

## UNITED STATES POSTAL SERVICE
## BALANCE SHEETS

| *(in millions)* | September 30, 2020 | September 30, 2019 |
|---|---|---|
| **Current Assets:** | | |
| Cash and cash equivalents | $ 14,358 | $ 8,795 |
| Restricted cash | 354 | 366 |
| Receivables, net | 1,359 | 1,461 |
| Supplies, advances and prepayments | 224 | 178 |
| **Total current assets** | **16,295** | **10,800** |
| Property and equipment, net | 14,567 | 14,352 |
| Operating lease right-of-use assets | 4,488 | — |
| Other assets | 554 | 481 |
| **Total assets** | **$ 35,904** | **$ 25,633** |
| **Current Liabilities:** | | |
| Compensation and benefits | $ 2,788 | $ 2,571 |
| Retirement benefits | 11,583 | 8,385 |
| Retiree health benefits | 51,865 | 47,205 |
| Workers' compensation | 1,320 | 1,359 |
| Payables and accrued expenses | 2,328 | 2,228 |
| Deferred revenue-prepaid postage | 2,489 | 2,225 |
| Operating lease liabilities | 1,206 | — |
| Customer deposit accounts | 1,260 | 1,119 |
| Other current liabilities | 1,336 | 1,190 |
| Short-term debt | 3,000 | — |
| **Total current liabilities** | **79,175** | **66,282** |
| Workers' compensation, noncurrent | 18,754 | 17,170 |
| Operating lease liabilities, noncurrent | 3,425 | — |
| Employees' accumulated leave, noncurrent | 2,201 | 2,064 |
| Other noncurrent liabilities | 2,057 | 649 |
| Long-term debt | 11,000 | 11,000 |
| **Total liabilities** | **116,612** | **97,165** |
| **Net Deficiency:** | | |
| Capital contributions of the U.S. government | 3,132 | 3,132 |
| Deficit since 1971 reorganization | (83,840) | (74,664) |
| **Total net deficiency** | **(80,708)** | **(71,532)** |
| **Total liabilities and net deficiency** | **$ 35,904** | **$ 25,633** |

*See accompanying notes to the financial statements.*

## UNITED STATES POSTAL SERVICE
## STATEMENTS OF CHANGES IN NET DEFICIENCY

| *(in millions)* | Capital Contributions of U.S. Government | Accumulated Deficit Since Reorganization | Total Net Deficiency |
|---|---|---|---|
| **Balance, September 30, 2017** | **$ 3,132** | **$ (61,856)** | **$ (58,724)** |
| Net loss | — | (3,913) | (3,913) |
| **Balance, September 30, 2018** | **$ 3,132** | **$ (65,769)** | **$ (62,637)** |
| Cumulative effect adjustments for adoption of new accounting pronouncements | | (82) | (82) |
| Net loss | — | (8,813) | (8,813) |
| **Balance, September 30, 2019** | **$ 3,132** | **$ (74,664)** | **$ (71,532)** |
| Net loss | — | (9,176) | (9,176) |
| **Balance, September 30, 2020** | **$ 3,132** | **$ (83,840)** | **$ (80,708)** |

*See accompanying notes to the financial statements.*

## UNITED STATES POSTAL SERVICE
## STATEMENTS OF CASH FLOWS

| *(in millions)* | Years Ended September 30, 2020 | 2019 | 2018 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Net loss | $ (9,176) | $ (8,813) | $ (3,913) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | | |
| Depreciation and amortization | 1,706 | 1,697 | 1,669 |
| Loss (gain) on disposals of property and equipment, net | 5 | (9) | (31) |
| Lease expense | (124) | — | — |
| (Increase) decrease in other assets | (73) | 8 | (51) |
| Increase (decrease) in noncurrent workers' compensation | 1,584 | 2,144 | (1,371) |
| Decrease in noncurrent deferred appropriations and other revenue | (5) | (9) | (4) |
| Net lease liabilities | 247 | — | — |
| Increase (decrease) in other noncurrent liabilities | 1,463 | 108 | (322) |
| Changes in current assets and liabilities: | | | |
| Receivables, net | 102 | (367) | 28 |
| Other current assets | (46) | (25) | (19) |
| Retirement benefits | 3,198 | 2,678 | 2,401 |
| Retiree health benefits | 4,660 | 4,564 | 4,481 |
| Payables, accrued expenses and other | 566 | 401 | (2) |
| Deferred revenue-prepaid postage, prepaid box rents and other | 262 | 88 | (99) |
| **Net cash provided by operating activities** | **4,369** | **2,465** | **2,767** |
| **Cash flows from investing activities:** | | | |
| Purchases of property and equipment | (1,810) | (1,419) | (1,409) |
| Proceeds from sales of property and equipment | 32 | 27 | 32 |
| **Net cash used in investing activities** | **(1,778)** | **(1,392)** | **(1,377)** |
| **Cash flows from financing activities:** | | | |
| Issuance of notes payable | 3,400 | 31,800 | 69,000 |
| Payments on notes payable | (400) | (30,000) | (70,800) |
| Net change in revolving credit line | — | (4,000) | — |
| Changes in finance lease obligations and other | (40) | (48) | (58) |
| **Net cash provided by (used in) financing activities** | **2,960** | **(2,248)** | **(1,858)** |
| Net increase (decrease) in cash, cash equivalents and restricted cash | 5,551 | (1,175) | (468) |
| Cash, cash equivalents & restricted cash - beginning of year | 9,161 | 10,336 | 10,804 |
| **Cash, cash equivalents & restricted cash - end of year** | **$ 14,712** | **$ 9,161** | **$ 10,336** |
| **Supplemental cash flow disclosures:** | | | |
| Cash paid for interest | $ 208 | $ 217 | $ 248 |

*See accompanying notes to the financial statements.*

## NOTES TO FINANCIAL STATEMENTS

### *NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

**Organization**

The United States Postal Service (the "Postal Service") provides postage, mail delivery and shipping services to consumer and commercial customers in the communications, distribution and delivery, advertising and retail markets throughout the nation and internationally. As a result, the Postal Service maintains a very diverse customer base and is not dependent upon a single customer or small group of customers. No single customer represented more than 7.5%, 6.0% and 6.0% of operating revenue for the years ended September 30, 2020, 2019 and 2018, respectively. The Postal Service is subject to congressional oversight and regulation by the Postal Regulatory Commission ("PRC"), but does not receive tax dollars for operating expenses, relying solely on the sale of postage, products and services to fund its operations.

The *Postal Accountability and Enhancement Act of 2006*, Public Law 109-435 ("PAEA") classifies the services offered by the Postal Service as either Market-Dominant or Competitive products; however, the term "services" is used in this report for consistency with other descriptions of services the Postal Service offers. The Postal Service provides services through approximately 31,000 internally-managed Post Offices, stations and branches, plus approximately 3,100 additional Contract Postal Units, Community Post Offices, Village Post Offices, and a large network of commercial outlets which sell postage stamps and services on the Postal Service's behalf, and through its website *www.usps.com*. The Postal Service delivers to more than 161 million city, rural, *PO Box* and highway delivery points. Operations are conducted primarily in the domestic market, with international revenue representing approximately 3% of operating revenue for the year ended September 30, 2020.

As of September 30, 2020, approximately 90% of employees were covered by collective bargaining agreements and are primarily represented by the American Postal Workers Union, AFL-CIO ("APWU"); the National Association of Letter Carriers, AFL-CIO ("NALC"); the National Postal Mail Handlers Union, AFL-CIO ("NPMHU") and the National Rural Letter Carriers Association ("NRLCA"). The contracts with these four labor unions represent the majority of Postal Service employees and include provisions granting annual wage increases and cost-of-living adjustments ("COLAs"), which are linked to the Consumer Price Index – Urban Wage Earners and Clerical Workers ("CPI-W"). For further information on collective bargaining agreements, see *Note 11 - Commitments and Contingencies.*

By law, the Postal Service must consult with management organizations representing most of its employees not covered by collective bargaining agreements. These consultations provide non-bargaining unit employees in the field with an opportunity to participate in the planning, development and implementation of certain programs and policies that affect them.

**Summary of Significant Accounting Policies**

The preparation of financial statements in accordance with accounting principles generally accepted in the U.S. ("GAAP") requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, management evaluates its estimates which are based on historical experience and various other assumptions that management believes are reasonable under the circumstances. The results of these evaluations form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates; however, management believes that its estimates are reasonable and that the actual results will not vary significantly from the estimated amounts.

All references to years in this report, unless otherwise stated, refer to fiscal years beginning October 1 and ending September 30. All references to quarters, unless otherwise stated, refer to fiscal quarters.

***Cash and Cash Equivalents***

*Cash and cash equivalents* consists of unrestricted cash and short-term, highly liquid investments with maturities of 90 days or less. See *Note 6 - Cash, Cash Equivalents and Restricted Cash* for additional information.

### *Restricted Cash*

*Restricted cash* represents Postal Service cash that is not available for general use. This includes cash originated from forfeitures or seizures related to consumer fraud or other criminal activity related to the mail and either held for third-party beneficiaries or awaiting disposition. *Restricted cash* also includes funds designated for specific use due to congressional appropriation for Postal Service obligations to the PRC and the United States Postal Service Office of Inspector General, or other restriction. See *Note 6 - Cash, Cash Equivalents and Restricted Cash* for additional information.

### *Receivables, net*

*Receivables, net* represents Postal Service receivables recorded at the amount invoiced, net of allowances. Allowances for potential losses are recognized at each balance sheet date. These estimates are determined based on historical collection experience, trends in customer payment frequency and judgments about the probable effects of observable data, including present economic conditions and the financial health of specific customers and market sectors. *Receivables, net* also included advances for employees' leave as described below in *Employees' Accumulated Leave*. See *Note 7 - Receivables, net* for additional information.

### *Property and Equipment, net*

*Property and equipment, net* represents property and equipment recorded at cost, including the interest on borrowings used to pay for the construction of major capital additions, less accumulated depreciation. Depreciation expense is recorded using the straight-line method over estimated useful life, which ranges from 3 to 40 years. Depreciation expense is included within *Other operating expenses* in the accompanying *Statements of Operations*. The balance in *Property and equipment, net*, which reflects initial historical costs and accumulated depreciation, is reduced when assets are sold or retired in the period in which the transaction occurred. General maintenance and repair costs are charged to expense as incurred. See *Note 8 - Property and Equipment, net* for additional information.

### *Software Capitalization*

Software costs, including internal development costs, are capitalized when they meet certain criteria. Costs to be capitalized include both contracted resources and employee labor costs involved in the development of internal-use software. Interest costs incurred while developing internal-use software are also capitalized. Costs are accumulated until the software is put into production, at which time amortization of the internal-use software begins for a period not to exceed 3 years.

### *Leases*

The Postal Service leases over 23,000 real properties. As the lessee, the Postal Service classifies a lease which has substantially all the risks and rewards of ownership as a finance lease. These leases are capitalized on the lease commencement date at the lower of the fair value of the leased assets or the present value of the minimum lease payments. The discount rate used to determine the present value is based on average U.S. Treasury rates. Property acquired under a finance lease is amortized over the lease term. Finance leases are included within *Property and equipment, net* in the accompanying *Balance Sheets*.

Other lease arrangements in which substantially all risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating leases are included within *Operating lease right-of-use assets* in the accompany *Balance Sheets*. Expenses associated with operating leases are recognized on a straight-line basis over the term of the lease as either rent expense or transportation expense based on the leased asset and are included within *Other operating expenses* or *Transportation*, respectively, in the *Statement of Operations.* See *Note 15 - Leases* for additional information.

### *Impaired Assets*

Impairment losses on long-lived assets are recorded when events or circumstances indicate that an asset's fair value is less than its carrying value. When such a determination is made, the carrying values of the assets are written down to fair value. Fair value is typically determined by independent appraisals for real property. Due to the absence of a market for most types of mailing equipment, impaired equipment assets are typically assigned a fair value of zero.

### *Employees' Accumulated Leave*

Employees' accumulated leave represents leave earned but unused as of the balance sheet date and is recorded as a liability net of advances. Career employees earn annual leave based on the number of creditable years of service with the federal government. The Postal Service notifies employees at the beginning of each calendar year of the amount of leave they will earn for that year. Leave taken by employees before it is earned is considered an advance. Advances are recorded within *Receivables, net* as presented in the accompanying *Balance Sheets.* The current portion of employees' accumulated leave, which consists of holiday leave is included under *Current liabilities* within *Compensation and benefits* in the accompanying *Balance Sheets*.

### *Retiree Benefits*

Career employees are eligible to participate in U.S. government pension and retiree health benefits programs. The Postal Service is required to provide funding for these plans as determined by the Office of Personnel Management ("OPM"), the administrator of the plans. The Postal Service cannot direct the costs, benefits or funding requirements of the plans. Accordingly, the plans are accounted for using multiemployer plan accounting rules, and expenses are recorded in the period in which the contributions are due and payable. See *Note 12 - Retirement Plans* and *Note 13 - Health Benefits Plans* for additional information.

### *Workers' Compensation*

Postal Service employees are covered by the *Federal Employees' Compensation Act* ("FECA"), administered by the Department of Labor ("DOL") Office of Workers' Compensation Programs ("OWCP"). The Postal Service uses an estimation model to forecast and record the workers' compensation liability for the present value of estimated future payments. See *Note 14 - Workers' Compensation* for additional information.

### *Deferred Revenue–Prepaid Postage*

*Deferred revenue–prepaid postage* is an estimate of postage that the Postal Service has sold but customers have not yet used. Because payments for postage are collected in advance of the satisfaction of related performance obligations, the Postal Service defers and reflects this revenue as *Deferred revenue–prepaid postage* in the accompanying *Balance Sheets*. Stamp sales and metered postage account for the majority of *Deferred revenue–prepaid postage*. Included in the estimate of the liability is an estimate for mail that is in-transit within the Postal Service network. See *Note 4 - Revenue Recognition and Deferred Revenue* for additional information.

### *Contingent Liabilities*

The Postal Service is a party to various legal proceedings and claims in the normal conduct of its operations. Contingent liabilities require significant judgment in estimating potential losses. Each quarter, the Postal Service evaluates significant new claims and litigation for the probability of an adverse outcome. The Postal Service also reviews prior claims and litigation, and when necessary, adjusts the liability balance for resolutions or revisions to prior estimates. Estimates of loss can therefore change as additional information becomes available. See *Note 11 - Commitments and Contingencies* for additional information.

### *Revenue Forgone*

Under the *Revenue Forgone Reform Act of 1993*, Congress agreed to reimburse the Postal Service $1.2 billion in 42 annual "installments" of $29 million through the year 2035 for certain services the Postal Service performed during years 1991 through 1998. Additionally, each year the Postal Service estimates the costs it incurs to provide "free and reduced mail" services to groups of mailers that Congress has determined should be subsidized, and the Postal Service submits these estimates annually to Congress. After consideration, Congress may deny, modify and/or approve the submission under an appropriation for one or both revenue forgone components. See *Note 16 - Revenue Forgone* for additional information.

### *Advertising*

Advertising costs, which the Postal Service expenses as they are incurred, were $155 million, $185 million and $164 million for the years ended September 30, 2020, 2019 and 2018, respectively, and are included within *Other operating expenses* in the accompanying *Statements of Operations*.

### *Research and Development*
Research and development costs, which the Postal Service expenses as they are incurred, were $18 million, $27 million and $53 million for the years ended September 30, 2020, 2019 and 2018, respectively, and are included within *Other operating expenses* in the accompanying *Statements of Operations*.

### *Foreign Currency Risk*
Foreign currency risk can arise from international mail transactions related to settlements of receivables and payables with foreign postal administrations. The majority of international accounts are denominated in special drawing rights, based on a group of currencies comprised of the euro, Japanese yen, Chinese yuan, British pound sterling and the U.S. dollar, which fluctuate daily. Changes in the relative value of these currencies increase or decrease the value of the settlement accounts and result in a gain or loss that is included in operating results. Operating results were not materially impacted by foreign exchange rate movements for the years ended September 30, 2020, 2019 and 2018.

### *Segment Information*
The Postal Service does not operate in segments and reports its performance as a single business.

### *Related Parties*
As disclosed throughout this report, the Postal Service conducts significant transactions with other U.S. government entities. See *Note 5 - Related Parties* for additional information.

## *NOTE 2 - RECENT ACCOUNTING PRONOUNCEMENTS*

### Recently Adopted Accounting Pronouncement
In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2016-02 *Leases,* which has since been codified in Accounting Standards Codification ("ASC") 842*, Leases* ("ASC 842"). The new standard requires an entity to record most leases in its balance sheets but continue to recognize expenses in its statements of operations in a manner similar to current accounting practices. The new standard requires a lessee to recognize a lease liability for the obligation to make lease payments and a right-of-use ("ROU") asset for the right to use the underlying asset for the lease term. Expenses associated with operating leases are recognized on a straight-line basis and include embedded interest and amortization components. The Postal Service recognizes expenses associated with operating leases as rent expense or transportation expense within *Other operating expenses* or *Transportation*, respectively, in the statements of operations. The Postal Service recognizes expenses associated with finance leases (formerly capital leases under previous guidance) with both interest and amortization expenses and presents these separately in the statements of operations. As such, finance leases generally have higher expenses in the earlier periods of the lease term.

The Postal Service adopted the standard on October 1, 2019. In connection with the adoption of the standard, the Postal Service made necessary changes to relevant policies, processes, information systems and internal controls. For transition purposes, the Postal Service elected the option not to restate comparative financial statements under the modified retrospective transition model. This option allows the application of the standard to all leases in effect as of October 1, 2019, or commencing thereafter, without any restatement impact on the comparative financial statement balances. Accordingly, all comparative financial statements enclosed herein are presented in accordance with the previous ASC 840, *Leases* ("ASC 840"), with related ASC 840 disclosures provided in *Note 12 - Leases*.

In implementing the standard, the Postal Service elected the package of practical expedients which permits carrying forward historical accounting positions around lease identification, lease classification and initial direct costs for all leases commencing prior to October 1, 2019. The Postal Service also made a policy election to not separate the lease and non-lease components for all types of underlying assets and to exclude its short-term leases from the ROU asset and lease liability balances.

The implementation of ASC 842 resulted in an opening balance sheet adjustment, as of October 1, 2019, to recognize approximately $4.4 billion in right-of-use assets and lease liabilities relating to operating leases as follows:

| *(in millions)* | As reported on September 30, 2019 | Adjustments | Balance on October 1, 2019 |
|---|---|---|---|
| **CONDENSED BALANCE SHEETS:** | | | |
| Operating lease right-of-use assets | $ — | $ 4,364 | $ 4,364 |
| **Total assets** | **$ 25,633** | **$ 4,364** | **$ 29,997** |
| Operating lease liabilities | $ — | $ 1,129 | $ 1,129 |
| Other current liabilities | 1,190 | (20) | 1,170 |
| Operating lease liabilities, noncurrent | — | 3,255 | 3,255 |
| **Total liabilities and net deficiency** | **$ 25,633** | **$ 4,364** | **$ 29,997** |

The implementation of ASC 842 did not have a material impact on the Postal Service's *Statement of Operations* or *Statement of Cash Flows* and did not have any impact on the Postal Service's *Statement of Changes in Net Deficiency*. See *Note 15 - Leases* for additional disclosures pertaining to ASC 842.

**Accounting Pronouncements Issued but not Adopted**

***Accounting Standards Update 2016-13 Financial Instruments - Credit Losses***

In June 2016, the FASB issued Accounting Standards Update 2016-13 *Financial Instruments - Credit Losses*, which has since been codified in ASC 326, *Financial Instruments - Credit Losses* ("ASC 326"). The new standard requires entities to measure expected credit losses on financial instruments and other commitments by replacing the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates.

The Postal Service intends to adopt ASC 326 for its 2021 fiscal year (beginning October 1, 2020) and the quarters therein. The standard is applicable to the Postal Service's valuation of its receivables. The Postal Service has completed its evaluation of the standard and finalized changes to its receivables accounting policies and procedures and to related processes. The adoption of the standard will result in enhanced disclosures, but will not have a material impact on its financial statements.

***Accounting Standards Update 2018-13 Fair Value Measurement***

In August 2018, the FASB issued Accounting Standards Update 2018-13 *Fair Value Measurement: Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*, which has since been codified in ASC 820, *Fair Value Measurement* ("ASC 820"). The new standard modifies the disclosure requirements for fair value measurements by adding, modifying or removing certain disclosures.

The Postal Service intends to adopt ASC 820 for its 2021 fiscal year (beginning October 1, 2020) and the quarters therein. The standard is applicable to the Postal Service's fair value measurements of its revenue forgone installment receivable and its long-term debt, as described further in *Note 17 - Fair Value Measurement*. Under ASC 820, certain disclosures are required to be applied on a retrospective basis and others on a prospective basis. The Postal Service has completed its evaluation of the standard and determined that the adoption will result in minor changes to its recurring disclosures with no impact on its financial statements.

***Accounting Standards Update 2018-15 Intangibles - Goodwill and Other - Internal-Use Software***

In August 2018, the FASB issued Accounting Standards Update 2018-15 *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40) - Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement*, which has since been codified in ASC Subtopic 350-40, *Intangibles - Goodwill and Other - Internal-Use Software* ("ASC 350-40"). This is an update to a standard the FASB issued in April 2015 for entities evaluating the accounting for fees paid by a customer in a cloud computing (hosting) arrangement by providing guidance for determining when such arrangement includes a software license.

If a cloud computing arrangement includes a license for internal-use software, then the software license is accounted for by the customer in accordance with ASC 350-40. This generally means that an intangible asset is recognized for the software license and, to the extent that the payments attributable to the software license are made over time, a liability also is recognized. If a cloud computing arrangement does not include a software license, the entity should account for the arrangement as a service contract. This generally means that the fees associated with the hosting element (service) of the arrangement are expensed as incurred.

The Postal Service intends to adopt ASC 350-40 for its 2021 fiscal year (beginning October 1, 2020) and the quarters therein. The Postal Service is updating its accounting policies and procedures and changes will be applied prospectively. The adoption of the standard will not have a material impact on its financial statements.

### *NOTE 3 - LIQUIDITY*

The Postal Service's liquidity consists of unrestricted cash and cash equivalents plus authorized borrowing capacity.

#### Cash

The Postal Service generates its cash almost entirely through the sale of postage and other services. It holds its cash with the Federal Reserve Bank of New York and invests its excess cash, when available, in highly liquid, short-term investments issued by the U.S. Department of the Treasury. As of September 30, 2020, and 2019, the Postal Service held unrestricted cash and cash equivalents of $14.4 billion and $8.8 billion, respectively. See *Note 6 - Cash, Cash Equivalents and Restricted Cash* for additional information.

#### Debt

Under the *Postal Reorganization Act*, as amended by Public Laws 101-227 and 109-435 (the "PRA"), the Postal Service can issue debt obligations. The PRA requires the Postal Service to notify the Secretary of the Treasury of its intent to issue debt, allowing the U.S. Treasury the first option to purchase such obligations. However, if the Secretary of the Treasury elects not to purchase such obligations, the PRA authorizes the Postal Service to issue and sell such obligations to a party or parties other than the U.S. Treasury, which may include a transaction in the public or private debt markets.

In 1974, the Postal Service began issuing debt through individual debt agreements to the Federal Financing Bank ("FFB"), a government-owned corporation under the general supervision of the Secretary of the Treasury. Under the PRA, the Postal Service is limited by statute to annual net increases in debt of $3.0 billion calculated as of the end of each fiscal year, and total debt of $15.0 billion. The availability of additional debt is discussed below, under *COVID-19 Considerations*.

In 1999, the Postal Service entered into a Note Purchase Agreement ("NPA") with the FFB to establish standardized procedures for the Postal Service to issue its debt. Under the NPA, the Postal Service was able to issue a series of notes with established terms and conditions by providing two days prior notice. Also under the NPA, the Postal Service could make borrowings against two annually-renewable revolving credit line facilities.

The NPA was extended each year through September 30, 2018, and in shorter increments between that date and August 31, 2019, at which time the NPA expired. This expiration did not affect the terms of any of the Postal Service's outstanding debt as of September 30, 2020, all of which was issued under the NPA.

As of September 30, 2020, the aggregate principal balance of all debt outstanding was $14.0 billion. This amount represented $3.0 billion in short-term debt relating to the revolving credit facility, that survived the NPA into April 2020 and becomes due in April 2021, and $11.0 billion in long-term debt consisting of a combination of fixed-rate and floating-rate notes. As of September 30, 2020, the Postal Service had no remaining borrowing capacity due to its limitation on annual net increases in debt. However, the borrowing capacity for 2021 reverted to $15.0 billion, and as of October 1, 2020, the Postal Service had $1.0 billion in remaining borrowing capacity.

As of September 30, 2019, the aggregate principal balance of all debt outstanding was $11.0 billion consisting of a combination of fixed-rate and floating-rate notes, all of which was considered long-term debt.

For additional information regarding the Postal Service's debt, see *Note 10 - Debt*.

**Liquidity Concerns**

For the year ended September 30, 2020, the Postal Service reported operating expenses of $82.2 billion and a net loss of $9.2 billion. From 2007 through 2020, the Postal Service has incurred cumulative net losses of $87.0 billion. Absent legislative and regulatory change, the Postal Service projects continuing annual net losses in the future. As a result of these losses and its liquidity concerns, the Postal Service may not have sufficient liquidity to meet all of its existing legal obligations when due while also reducing its debt and making the critical infrastructure investments that have been deferred in recent years.

Furthermore, while the expiration of the NPA did not remove the Postal Service’s statutory ability to issue debt under the PRA, if the Postal Service is unable to renew or replace the NPA with the FFB, it has no assurance it would be able to raise additional cash through debt financing with the FFB, or that such financing would be provided on terms comparable to those under the NPA. Alternatively, if the Postal Service were to use its authority under the PRA to issue and sell obligations to a party or parties other than the FFB, it has no assurance it would be successful in raising additional cash, or that such financing would be provided on terms comparable to those under the NPA.

***COVID-19 Considerations***

In March 2020, the World Health Organization declared a novel strain of coronavirus (“COVID-19”) a global pandemic, and the virus has since spread throughout the U.S. Given its mandate to provide universal postal services to the nation, the Postal Service provides an essential service as part of the nation’s critical infrastructure and has continued to process and deliver mail and packages during the pandemic. The Postal Service serves a critical role in the U.S. economy as its employees accept, process, transport, and deliver vital mail and packages like medicine, essential consumer staples, benefits checks, and important information.

The COVID-19 pandemic has had a material effect on certain of the Postal Service’s results of operations. Quarantines, shelter-in-place orders, and travel and logistics restrictions in connection with the outbreak have affected consumer and commercial customers, as well as suppliers and mail service providers. The Postal Service relies on the sale of postal products and services to fund its operations and is significantly impacted by factors including, but not limited to, overall customer demand, the mix of postal services and contribution associated with those services, and the volume of mail and packages processed through its network.

As a result of the pandemic, and to a lesser extent, secular mail declines, the Postal Service’s sales from mail services, began a rapid decline in late March 2020, followed by a modest recovery in the third quarter and through the end of the year. Meanwhile, the Postal Service’s sales from Shipping and Packages, its most labor-intensive revenue stream, experienced substantial growth as a result of the surge in e-commerce driven by the pandemic. While the shift led to increased cash flow and overall higher revenue results for the year, Shipping and Packages produces a lower contribution margin per revenue dollar due to the higher associated labor and transportation expenses.

In addition to increased labor costs to support this volume increase, transportation expenses were impacted as logistics restrictions and limitations associated with the pandemic led to fewer modes of available transportation. Furthermore, the pandemic significantly increased the Postal Service’s expenses on supplies and services, such as personal protective equipment (PPE), and on paid sick leave, including new leave authorized by the *Families First Coronavirus Response Act*, enacted as Public Law 116-127 (“FFCRA”). The FFCRA provides the means for companies and other government entities to receive federal reimbursement for payment of this FFCRA leave; however, the Postal Service is not eligible for such reimbursement.

The duration of the COVID-19 disruption remains uncertain, and the Postal Service expects that its liquidity may worsen if the nation experiences a prolonged period of disruption and the surge in e-commerce diminishes. Given these COVID-19 considerations, the Postal Service may require an additional injection of liquidity, provided by either the U.S. government or other sources in order to meet all obligations as they become due.

On March 27, 2020, the President signed the *Coronavirus Aid, Relief, and Economic Security Act,* enacted as Public Law 116-136 (the “*CARES Act*”). Notwithstanding the $15.0 billion statutory debt limit and the $3.0 billion limit on annual borrowing, the *CARES Act* allows the Postal Service to borrow up to an additional $10.0 billion in financing from the U.S. Treasury to fund operating expenses. The U.S. Treasury may lend up to this amount at the request of the Postal Service, upon terms and conditions mutually agreed upon. On July 29, 2020, the Postal Service announced that it had reached an agreement in principle with the U.S. Treasury on the terms and conditions associated with the *CARES Act* financing. The agreed-upon terms and conditions must be memorialized in loan documents and satisfied before the Postal Service will have access to the *CARES Act* borrowing, as limited by such terms and conditions, including the March 27, 2022 expiration of the funding.

The *CARES Act* also offers certain employers the ability to defer payment of the employer's share of the Social Security payroll tax on wages incurred from March 27, 2020, through December 31, 2020. In accordance with this provision, the Postal Service began deferring these payments in April 2020, and intends to continue the deferral for the remainder of calendar year 2020. One half of these deferred payments would be due by December 31, 2021, and the other half by December 31, 2022. As of September 30, 2020, the Postal Service had deferred approximately $1.2 billion. This amount is recorded within *Other noncurrent liabilities* in the accompanying *Balance Sheets*.

***Business Model Challenges/Constraints***

The Postal Service is constrained by laws and regulations, including the PAEA, which restricts revenue sources and mandates certain expenses. Many employee and retiree benefit costs are mandated by law and cannot be altered without legislative change, and some of these costs have historically increased at a higher rate than inflation. Such expenses include prefunding requirements for retiree health benefits, and amortization payments to provide full funding of retirement and retiree health benefits that are unlike those imposed on most other federal entities or private-sector businesses that offer such benefits.

Under current law, the Postal Service is generally unable to increase prices sufficiently to offset increased costs, and is likewise constrained by law from reducing many of its costs or from pursuing many alternate sources of revenue. Market-Dominant services, which accounted for approximately 58% of the Postal Service's annual operating revenues in 2020, are currently subject to a price cap as measured by the Consumer Price Index for All Urban Consumers ("CPI-U"). However, the Postal Service's costs are not similarly constrained.

The ongoing decline in the volume of Market-Dominant products and services, which has been exacerbated by the COVID-19 pandemic, is a significant factor contributing to Postal Service losses. Specifically, declines in *First-Class Mail* are largely the result of changes in consumers' and businesses' use of mail resulting from the continuing migration to electronic communication and transactional alternatives, which have taken place over the last decade and are expected to continue. *Marketing Mail* volume has generally been challenged by commercial mailers' increasing use of digital and mobile advertising, and more recently by the COVID-19 pandemic, although this class has benefited from strong political and election mail volumes, especially during presidential and congressional election cycles.

The Postal Service's Shipping and Packages category has historically provided revenue and volume growth as a result of its successful efforts to compete in shipping services, including last-mile e-commerce fulfillment markets and Sunday delivery as well as end-to-end markets. However, this service category is subject to intense competition which significantly impacts both revenue and volume. Certain major customers of the Postal Service had begun diverting volume from the Postal Service's network by in-sourcing the last-mile delivery. However, as a result of the surge in e-commerce growth driven by the COVID-19 pandemic, some of these customers increased their volume to the Postal Service's network beginning in March 2020 due to their delivery capacity constraints and these increased volumes have continued through the second half of 2020.

A large portion of the Postal Service's cost structure cannot be altered expeditiously due to its universal service obligation. Furthermore, the number of delivery points continues to grow by over one million per year, which increases delivery costs. When combined with the impact of lower mail volume, the average number of pieces delivered per delivery point per day has decreased from approximately 5.5 pieces in 2007 to 3.0 pieces in 2020, a decline of approximately 46%.

Because the Postal Service provides its services primarily through its employees, its costs are heavily concentrated in wages and benefits for both current employees and retirees. These costs are significantly impacted by contractual wage increases, employee health benefit premium increases, and statutorily mandated retirement and workers' compensation programs.

Statutorily mandated expenses include amortization payments to provide full funding of retirement benefits under the Civil Service Retirement System ("CSRS") and the Federal Employee Retirement System ("FERS"), described in greater detail below and in *Note 12 - Retirement Plans*. Additionally, the PAEA established the Postal Service Retiree Health Benefits Fund ("PSRHBF") and mandated certain obligations for paying the normal costs and amortization payments for full prefunding of retiree health benefits. Normal costs are the present value of the estimated retiree health benefits attributable to active employees' current year of service. These prefunding obligations are described in greater detail below and in *Note 13 - Health Benefits Plans*.

***Past Due Obligations***

The following table presents the total expenses accrued but unpaid by the Postal Service as of September 30, 2020, related to retiree health benefits, CSRS and FERS and the fiscal years in which the accruals were recorded:

| *(in millions)* | 2020 | 2019 | 2018 | 2012 to 2017 | Total |
|---|---|---|---|---|---|
| PSRHBF prefunding fixed amount | $ — | $ — | $ — | $ 33,900 | $ 33,900 |
| PSRHBF unfunded benefits amortization | 810 | 789 | 815 | 955 | 3,369 |
| Normal cost of retiree health benefits | 3,850 | 3,775 | 3,666 | 3,305 | 14,596 |
| CSRS unfunded retirement benefits amortization | 1,817 | 1,617 | 1,440 | 1,741 | 6,615 |
| FERS unfunded retirement benefits amortization | 1,343 | 1,060 | 958 | 1,412 | 4,773 |
| **Total expenses accrued but unpaid** | **$ 7,820** | **$ 7,241** | **$ 6,879** | **$ 41,313** | **$ 63,253** |

**Mitigating Circumstances**

The Postal Service continues to pursue strategies within its control to increase operational efficiency and improve liquidity. The Postal Service has managed capital in recent years by spending only what it believed essential to maintain its existing facilities and service levels, and to increase efficiencies. However, continued increases in capital investment are necessary to upgrade its facilities, fleet of vehicles and processing equipment in order to remain operationally viable.

The Postal Service continues to support legislation that will enable it to increase revenue and reduce costs. Specifically, reforms to establish a set of health care plans within the Federal Employees Health Benefits ("FEHB") Program, fully integrated with Medicare, for current and future Postal Service retirees, would eliminate most of the current retiree health benefits unfunded liability and substantially reduce annual amortization and normal cost payment requirements.

The Postal Service's status as an independent establishment of the executive branch that does not receive tax dollars for its operations presents unique requirements and restrictions, but also potentially mitigates some of the financial risk that would otherwise be associated with a cash shortfall. With annual total revenue of approximately $73 billion in 2020, a financially sound Postal Service continues to be vital to U.S. commerce.

The U.S. economy benefits greatly from the Postal Service and the many businesses that provide the printing and mailing services that it supports. Disruption of the mail would cause undue hardship to businesses and consumers as it would significantly inhibit the remittance of payments through the mail, as well as vital mail and packages like medicine, essential consumer staples, benefit checks, and important information. In the event of a cash shortfall, the U.S. government would likely prevent the Postal Service from significantly curtailing or ceasing operations. The Postal Service continues to inform the executive branch, Congress, the PRC and other stakeholders of the immediate and long-term financial challenges it faces and the legislative and regulatory changes that are required to restore its financial stability.

In the event that circumstances leave the Postal Service with insufficient liquidity, it would likely be required to implement additional contingency plans to ensure that its primary mission is fulfilled and that mail deliveries continue.

These measures may require the Postal Service to prioritize payments to the FFB, employees and suppliers ahead of some payments to fund retirement and retiree health benefits, as has been done in the past.

## NOTE 4 - REVENUE RECOGNITION AND DEFERRED REVENUE

The Postal Service generates the majority of its revenue from contracts associated with the processing and delivery of different types of mail and packages, both domestically and internationally, which generally occurs over a relatively short period of time (e.g., several days).

The Postal Service's revenue is generated primarily from deliveries within the domestic market, with international revenue representing 3.3%, 3.5% and 3.7% of operating revenue for the years ended September 30, 2020, 2019 and 2018, respectively. For the years ended September 30, 2020, 2019 and 2018, combined revenue from the Postal Service's three largest customers (excluding mail service providers) represented approximately 10.5%, 8.5% and 8.3% of operating revenue, respectively.

### Disaggregation of Revenue

The following table summarizes the Postal Service’s disaggregated operating revenue for the year ended September 30, 2020, and 2019 by each service category:

| *(in millions)* | 2020 | 2019* |
|---|---|---|
| **Operating revenue:** | | |
| First-Class Mail | $ 23,778 | $ 24,431 |
| Marketing Mail | 13,909 | 16,359 |
| Shipping and Packages | 28,537 | 22,783 |
| International | 2,400 | 2,474 |
| Periodicals | 1,024 | 1,194 |
| Other | 3,475 | 3,895 |
| **Total operating revenue** | **$ 73,123** | **$ 71,136** |

* Prior period amounts for certain service categories include reclassifications of amounts amongst service categories to conform to current period presentation. These reclassifications are immaterial for each affected category, and had no effect on total operating revenue for the period.

### Satisfaction of Performance Obligations

ASC 606 defines a performance obligation as a promise in a contract to transfer a distinct good or service to the customer. A contract’s transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied.

*First-Class Mail*, *Marketing Mail*, Shipping and Packages, *International Mail* and *Periodicals* are categorized as Mailing and Shipping services for purposes of satisfying performance obligations. The Postal Service recognizes revenue for Mailing and Shipping services as it fulfills its obligation to process and deliver each mailpiece and the customer mail sender/recipient receives and consumes the benefits of these services.

Other revenue includes *PO Box* services, Return Receipts, Insurance, Other Ancillary Services, Shipping and Mailing Supplies, Collect on Delivery, *Registered Mail*, Stamped Envelopes and Cards, money orders, and other goods and services. The Postal Service recognizes revenue for the majority of these services over time as the customer receives and consumes the benefits of the service. The revenue for a small portion of certain goods or services in this service category is recognized at a point in time when the goods or service are provided to the customer.

The vast majority of the Postal Service’s contracts include only one performance obligation. However, if a contract is separated into more than one performance obligation, the total transaction price for each performance obligation is allocated in an amount based on the estimated relative stand-alone selling prices of the promised goods or services underlying each performance obligation. The majority of the goods or services the Postal Service sells have observable stand-alone sales prices. Furthermore, the Postal Service receives payment for the majority of its goods and services up front.

The Postal Service recognizes revenue over time as mail and packages move through its network and the progress of the completion of performance obligations are satisfied.

**Variable Consideration**

The Postal Service offers certain contracts to its customers that contain various types of customer incentives or other provisions that can either increase or decrease the transaction price. Customer incentives include discounts, money back guarantees, rebates, refunds or incentive payments. The other provisions include performance penalties. The Postal Service uses the expected value approach to estimate variable consideration to which it expects to be entitled.

**Contract Modifications**

The Postal Service considers contract modifications to exist when the modification either creates new enforceable rights and obligations or alters the existing arrangement. Contract modifications do not add distinct services; they are typically used to change the prices that the Postal Service charges its customer for existing services. These contract modifications are accounted for prospectively as the remaining performance obligations are executed.

**Principal vs. Agent Consideration**

The Postal Service utilizes third parties to assist with the transportation of mailpieces between different points as part of the processing and delivery process. Based on its evaluation of the transfer of control model, the Postal Service has determined that it acts as the principal rather than the agent within these arrangements.

**Contract Liabilities**

The vast majority of the Postal Service's contract liabilities consist of *Deferred revenue-prepaid postage* and prepaid *PO Box* and Caller Service fees. *Deferred revenue-prepaid postage* is an estimate of postage that has been sold, but not yet used by customers. Because the Postal Service collects payments for its services in advance of the satisfaction of related performance obligations, it defers and reports this unearned revenue as *Deferred revenue-prepaid postage* as a liability in its balance sheet.

The following table presents the opening balance of the Postal Service's contract liabilities, including *Deferred revenue-prepaid postage* and prepaid *PO Box* and Caller Service fees, as of September 30, 2020, and 2019:

| *(in millions)* | 2020 | 2019 |
|---|---|---|
| **Deferred revenue-prepaid postage:** | | |
| Forever stamps | $ 1,446 | $ 1,238 |
| Mail-in-transit | 589 | 555 |
| Metered postage | 329 | 313 |
| Other prepaid postage | 125 | 119 |
| **Total deferred revenue-prepaid postage** | **2,489** | **2,225** |
| **Prepaid PO Box and Caller Service fees** | **489** | **461** |
| **Total deferred revenue** | **$ 2,978** | **$ 2,686** |

Deferred revenue for forever stamps is developed and validated through mathematical and statistical sampling methods for estimating postage stamp usage. Revenue is recognized based on this estimated usage. Revenue is also recognized for "breakage" representing a portion of forever stamps that will never be used for mailing due to loss, damage or stamp collection.

Deferred revenue for metered postage, which is primarily a commercial product, is estimated by monitoring the actual usage of all postage meters that had postage added during the month preceding the financial measurement date. The information from the two most recent meter readings is used to derive a deferral percentage, which is applied to all postage meter receipts for the month.

The liability also includes an estimate for mail that is in-transit within the Postal Service processing and delivery network. Deferred revenue for mail-in-transit is recognized over time as it is processed through the postal network. The revenue is fully recognized once the mail piece reaches its final destination.

The prepaid *PO Box* and Caller Service fees consist of payments received from customers for *PO Box* fees at the beginning of their contracts. The Postal Service defers and reflects this unearned revenue as prepaid *PO Box* and Caller Service fees within *Other current liabilities* in the accompanying *Balance Sheets*. Revenue is recognized over time as customers use the *PO Box* and Caller Services over the terms of their contracts.

The following table provides details of revenue recognized for the year ended September 30, 2020, that was reported in the Postal Service's contract liabilities for deferred revenue as of September 30, 2019:

| *(in millions)* | **2020** |
|---|---|
| **Revenue recognized from deferred revenue:** | |
| Forever stamps | $ 946 |
| Mail-in-transit | 555 |
| Metered postage | 313 |
| Other prepaid postage | 102 |
| PO Box and Caller Service fees | 461 |

***NOTE 5 - RELATED PARTIES***

The Postal Service conducts significant transactions with other U.S. government entities, which are considered related parties.

The following table presents related-party assets and liabilities as of September 30, 2020, and 2019:

| *(in millions)* | **September 30, 2020** | **September 30, 2019** |
|---|---|---|
| **Related-party assets:** | | |
| Carrying amount of revenue forgone installment receivable[1] | $ 485 | $ 466 |
| **Related-party liabilities:** | | |
| Short-term debt | $ 3,000 | $ — |
| Other current liabilities[2] | 64,146 | 57,518 |
| Long-term debt | 11,000 | 11,000 |
| Other noncurrent liabilities[3] | 20,013 | 17,187 |

[1] Included within *Other assets* in the accompanying *Balance Sheets*. See further discussion in *Note 17 - Fair Value Measurement*.

[2] Amounts include CSRS, FERS and PSRHBF obligations and current workers' compensation obligations, as well as payables to other agencies.

[3] Amounts include noncurrent workers' compensation obligations.

The following table presents related-party revenue and expenses for the years ended September 30, 2020, 2019 and 2018:

| *(in millions)* | 2020 | 2019 | 2018 |
|---|---|---|---|
| Related-party operating revenue[1] | $ 1,373 | $ 971 | $ 999 |
| Related-party operating expenses[2] | 17,519 | 16,699 | 16,394 |
| Related-party interest income[3] | 91 | 151 | 123 |
| Related-party interest expenses[4] | 203 | 227 | 235 |

[1] Included within *Operating revenue* in the accompanying *Statements of Operations*.
[2] Included within *Operating expenses* in the accompanying *Statements of Operations*.
[3] Imputed on the revenue forgone installment receivable or generated on cash equivalents held with the Federal Reserve Bank of New York or short-term investments in U.S. Treasury instruments. Included within *Interest and investment income* in the accompanying *Statements of Operations*.
[4] Incurred on debt issued to the Federal Financing Bank, and included within *Interest expense* in the accompanying *Statements of Operations*.

***NOTE 6 - CASH, CASH EQUIVALENTS AND RESTRICTED CASH***

The following table provides a reconciliation of *Cash and cash equivalents* and *Restricted cash* reported in the accompanying *Balance Sheets* as of September 30, 2020, and 2019, respectively, along with the reported *Cash and cash equivalents* and *Restricted cash* balances as of September 30, 2018. These amounts correspond to the totals reported in the accompanying *Statements of Cash Flows* for the years ended September 30, 2020, 2019 and 2018:

| | September 30, | | |
|---|---|---|---|
| *(in millions)* | 2020 | 2019 | 2018 |
| Cash and cash equivalents | $ 14,358 | $ 8,795 | $ 10,061 |
| Restricted cash | 354 | 366 | 275 |
| **Total cash, cash equivalents and restricted cash** | **$ 14,712** | **$ 9,161** | **$ 10,336** |

The Postal Service holds its *Cash and cash equivalents* and *Restricted cash* with the Federal Reserve Bank of New York and invests its excess cash, when available, in highly liquid, short-term investments issued by the U.S. Department of the Treasury.

***NOTE 7 - RECEIVABLES, NET***

The following table details *Receivables, net* from the accompanying *Balance Sheets* as of September 30, 2020, and 2019:

| *(in millions)* | 2020 | 2019 |
|---|---|---|
| Foreign postal administrations | $ 882 | $ 1,050 |
| U.S. government* | 28 | 20 |
| Other | 536 | 475 |
| Receivables before allowances | 1,446 | 1,545 |
| Less: Allowances | 87 | 84 |
| **Receivables, net** | **$ 1,359** | **$ 1,461** |

* U.S. government receivables amounts exclude noncurrent receivables.

Receivables from foreign postal administrations were 61.0% and 68.0% of the total receivables before allowances as of September 30, 2020 and 2019, respectively. The largest of these receivables was from China, which represented 34.5% and 42.2% of the total foreign balance outstanding in 2020 and 2019, respectively. U.S. government receivables consist primarily of military and official mail receivables of $10 million and $16 million as of September 30, 2020, and 2019, respectively. The Postal Service had no current appropriations receivables as of September 30, 2020, and 2019.

Total provisions for allowances charged to expense for the years ended September 30, 2020, 2019 and 2018 were $7 million, $23 million and $17 million, respectively, and are included within *Other operating expenses* in the accompanying *Statements of Operations.*

***NOTE 8 - PROPERTY AND EQUIPMENT, NET***

Assets within *Property and equipment, net* are recorded at cost, which includes the interest on borrowings used to finance the construction of major capital additions, less allowances for depreciation and amortization. Interest capitalized during the years ended September 30, 2020, 2019 and 2018, was not significant. Assets within *Property and equipment, net* are depreciated over estimated useful lives that range from 3 to 40 years using the straight-line method.

The following table provides details for *Property and equipment, net* from the accompanying *Balance Sheets* as of September 30, 2020, and 2019:

| *(in millions, except years)* | **Estimated life in years** | **2020** | **2019** |
|---|---|---|---|
| Buildings | 3 - 40 | $ 26,100 | $ 25,734 |
| Equipment | 3 - 20 | 14,726 | 15,552 |
| Vehicles | 5 - 24 | 4,602 | 4,432 |
| Land | - | 2,865 | 2,855 |
| Leasehold improvements | 3 - 20 | 1,765 | 1,704 |
| **Property and equipment, at cost** | | **$ 50,058** | **$ 50,277** |
| Less: Accumulated depreciation and amortization | | 36,632 | 36,707 |
| Construction in progress | | 1,141 | 782 |
| **Property and equipment, net** | | **$ 14,567** | **$ 14,352** |

Gains and losses recognized on assets sold are reported in *Other revenue* and *Other operating expense*, respectively, within the accompanying *Statements of Operations.*

The Postal Service defers gains when it enters into any leaseback arrangements or contractual obligations requiring continued Postal Service involvement with the property. Total deferred gains on the sale of property were $292 million and $295 million as of September 30, 2020, and 2019, respectively. The current portions of deferred gains were $1 million as of both September 30, 2020, and 2019, and are included within *Other current liabilities* in the accompanying *Balance Sheets*. The noncurrent portions of deferred gains were $291 million and $294 million as of September 30, 2020, and 2019, respectively, and are included within *Other noncurrent liabilities* in the accompanying *Balance Sheets*.

Deferred gains are amortized over the periods during which the Postal Service has continuing involvement with the applicable properties.

Depreciation and amortization expenses were approximately $1.7 billion for each of the years ended September 30, 2020, 2019 and 2018, and are included within *Other operating expenses* in the accompanying *Statements of Operations*.

### *NOTE 9 - PAYABLES AND ACCRUED EXPENSES*

The following table provides details for *Payables and accrued expenses* from the accompanying *Balance Sheets* as of September 30, 2020, and 2019:

| *(in millions)* | 2020 | 2019 |
|---|---|---|
| Trade payables | $ 852 | $ 764 |
| Foreign postal administrations | 494 | 444 |
| U.S. government | 78 | 70 |
| Other accrued expenses | 904 | 950 |
| **Total payables and accrued expenses** | **$ 2,328** | **$ 2,228** |

### *NOTE 10 - DEBT*

Under the PRA, the Postal Service can issue debt obligations. The PRA requires the Postal Service to notify the Secretary of the Treasury of its intent to issue debt, allowing the U.S. Treasury the first option to purchase such obligations. However, if the Secretary of the Treasury elects not to purchase such obligations, the PRA authorizes the Postal Service to issue and sell such obligations to a party or parties other than the U.S. Treasury, which may include a transaction in the public or private debt markets.

In 1974, the Postal Service began issuing debt through individual debt agreements to the FFB, a government-owned corporation under the general supervision of the Secretary of the Treasury. The Postal Service is limited by statute to net annual debt increases of $3.0 billion, and total debt may not exceed $15.0 billion.

In 1999, the Postal Service entered into the NPA with the FFB to establish standardized procedures for the Postal Service to issue its debt. Under the NPA, the Postal Service was able to issue a series of notes with established terms and conditions by providing two days prior notice. Also under the NPA, the Postal Service could make borrowings against two annually renewable revolving credit line facilities. These note arrangements and credit line facilities provided the flexibility to borrow short or long term, using floating or fixed-rate instruments.

The NPA was extended each year through September 30, 2018, and in shorter increments between that date and August 31, 2019, at which time the NPA expired. This expiration did not affect the terms of any of the Postal Service's outstanding debt as of September 30, 2020, all of which was issued under the NPA.

All of the Postal Service's debt is unsecured, not subject to sinking fund requirements and can be repaid at any time at a price determined by the Secretary of the Treasury based on prevailing interest rates in the U.S. Treasury securities market at the time of repayment. As of September 30, 2020, the premium associated with a prepayment of all debt was $884 million based on prevailing interest rates. The weighted average interest rate for all outstanding debt was 1.113% as of September 30, 2020.

While the expiration of the NPA did not remove the Postal Service's statutory ability to issue debt obligations under the PRA, if the Postal Service is unable to renew or replace the NPA with the FFB, it has no assurance that it would be able to raise additional cash through debt financing with the FFB, or that such financing would be provided on terms comparable to those under the NPA. Alternatively, if the Postal Service were to use its authority under the PRA to issue and sell obligations to a party or parties other than the FFB, it has no assurance it would be successful in raising additional cash, or that such financing would be provided on terms comparable to those under the NPA.

Notwithstanding the $15.0 billion statutory debt limit and the $3.0 billion limit on annual borrowing, the *CARES Act* allows the Postal Service to borrow up to an additional $10.0 billion in financing from the U.S. Treasury to fund operating expenses. The U.S. Treasury may lend up to this amount at the request of the Postal Service, upon terms and conditions mutually agreed upon. On July 29, 2020, the Postal Service announced that it had reached an agreement in principle with the U.S. Treasury on the terms and conditions associated with the *CARES Act* financing. The agreed-upon terms and conditions must be memorialized in loan documents and satisfied before the Postal Service will have access to the *CARES Act* borrowing, as limited by such terms and conditions.

The following table provides details for *Short-term debt* and *Long-term debt* from the accompanying *Balance Sheets* as of September 30, 2020, and 2019:

| *(in millions, except percentages)* | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| **Maturity** | **Balance** | | **Rate %** | **Balance** | | **Rate %** |
| **Short-term debt:** | | | | | | |
| **Revolving credit line:** | | | | | | |
| April 2, 2021 | $ | 3,000 | 0.289 | $ | — | |
| **Total short-term debt** | **$** | **3,000** | | **$** | **—** | |
| **Long-term debt:** | | | | | | |
| **Floating rate notes:*** | | | | | | |
| November 20, 2053 | $ | 1,000 | 0.216 | $ | 1,000 | 1.992 |
| June 20, 2053 | | 1,300 | 0.216 | | 1,300 | 2.076 |
| February 25, 2054 | | 500 | 0.247 | | 500 | 2.124 |
| February 12, 2054 | | 1,200 | 0.237 | | 1,200 | 2.087 |
| February 12, 2054 | | 800 | 0.237 | | 800 | 2.087 |
| May 12, 2054 | | 700 | 0.237 | | 700 | 2.132 |
| **Fixed rate notes:** | | | | | | |
| April 15, 2022 | | 1,000 | 2.446 | | 1,000 | 2.446 |
| April 30, 2024 | | 1,000 | 2.425 | | 1,000 | 2.425 |
| May 17, 2038 | | 200 | 3.770 | | 200 | 3.770 |
| February 15, 2039 | | 1,000 | 3.790 | | 1,000 | 3.790 |
| August 16, 2049 | | 300 | 2.180 | | 300 | 2.180 |
| August 15, 2029 | | 1,000 | 1.728 | | 1,000 | 1.728 |
| July 31, 2026 | | 700 | 1.679 | | 700 | 1.679 |
| August 15, 2029 | | 300 | 1.620 | | 300 | 1.620 |
| **Total long-term debt** | **$** | **11,000** | | **$** | **11,000** | |
| **Total debt** | **$** | **14,000** | | **$** | **11,000** | |

* The interest rates on the floating rate notes reset three months after the initial advance date and then on a quarterly basis throughout the life of the individual notes.

At September 30, 2020, scheduled repayments of debt principal are listed below:

| *(in millions)* | **Principal Amount** | |
|---|---|---|
| 2021 | $ | 3,000 |
| 2022 | | 1,000 |
| 2023 | | — |
| 2024 | | 1,000 |
| 2025 | | — |
| Thereafter | | 9,000 |
| **Total debt maturities** | **$** | **14,000** |

## *NOTE 11 - COMMITMENTS AND CONTINGENCIES*

### Capital Commitments

Capital commitments consist primarily of commitments to invest in equipment and building construction and improvements. The following table provides details for approved capital projects in progress at September 30, 2020, and 2019:

| *(in millions)* | 2020 | 2019 |
|---|---|---|
| Mail processing equipment | $ 260 | $ 356 |
| Building improvements, construction and building purchase | 630 | 719 |
| Postal support equipment | 40 | 86 |
| Vehicles and other | 817 | 733 |
| **Total capital commitments** | **$ 1,747** | **$ 1,894** |

### Collective Bargaining Agreements

In May 2019, the Postal Service reached a tentative agreement with the National Rural Letter Carriers' Association (NRLCA) on a three-year collective bargaining agreement, which the union membership ratified in August 2019. The new contract will expire on May 20, 2021.

In March 2020, a three-member arbitration panel reached a decision in the Postal Service's legally mandated binding interest arbitration process with the American Postal Workers Union, AFL-CIO (APWU), establishing the terms of a new collective bargaining agreement. The new contract will expire on September 20, 2021.

In January 2020, the Postal Service reached a tentative agreement with the National Postal Mail Handlers Union, AFL-CIO (NPMHU) on a new three-year collective bargaining agreement, which the union membership ratified on April 7, 2020. The new contract will expire on September 20, 2022.

In September 2019, the Postal Service agreed to extend contract negotiations relating to a new collective bargaining agreement with the National Association of Letter Carriers, AFL-CIO ("NALC"). The previous contract with the NALC expired on September 20, 2019, and negotiations with the NALC are at an impasse. The parties bypassed mediation and interest arbitration in front of a tripartite panel began on September 23, 2020. The parties will continue to follow the current agreement until a new contract is reached through the interest arbitration process.

### Contingent Liabilities

The Postal Service's contingent liabilities consist primarily of claims resulting from labor and employment matters; asset retirement obligations and environmental matters; property damage and injuries on properties the Postal Service occupies or controls; and issues arising from Postal Service contracts, personal claims and traffic accidents. Each quarter, the Postal Service evaluates each new claim to determine its potential liability. If the Postal Service determines that an unfavorable outcome from a new claim is both probable and estimable, it records a liability for the potential loss. Preexisting claims are also reviewed and adjusted quarterly for resolutions or revisions to prior estimates based on new facts and circumstances.

The Postal Service is from time to time involved in other litigation incidental to the conduct of its business, none of which is expected to be material to its financial condition or operations.

### *Provision for Losses*
The Postal Service has made adequate provision for probable losses arising from all claims. The following table presents contingent liabilities by current and noncurrent portions and by category, as of September 30, 2020, and 2019:

| *(in millions)* | 2020 | 2019 |
|---|---|---|
| **Current/noncurrent portions of contingent liabilities:** | | |
| Current portion[1] | $ 103 | $ 195 |
| Noncurrent portion[2] | 188 | 141 |
| **Total contingent liabilities** | **$ 291** | **$ 336** |
| **Contingent liabilities by category:** | | |
| Labor and employment matters | $ 137 | $ 204 |
| Asset retirement obligations | 72 | 57 |
| Tort matters | 82 | 75 |
| **Total contingent liabilities** | **$ 291** | **$ 336** |

[1] Included within *Payables and accrued expenses* in the accompanying *Balance Sheets*.
[2] Included within *Other noncurrent liabilities* in the accompanying *Balance Sheets*.

### *Reasonably Possible Contingencies*
The Postal Service does not accrue for contingencies which it deems reasonably possible of an unfavorable outcome. These ranged in amount from $200 million to $1.1 billion and from $150 million to $1.0 billion at September 30, 2020, and 2019, respectively.

### *Class Action Litigation*
As previously reported, on January 14, 2010, the Equal Employment Opportunity Commission's (“EEOC”) Office of Federal Operations (“OFO”) certified the case *McConnell v. Brennan* (first instituted in 2006 as *McConnell v. Potter*) as a class action against the Postal Service, with the class consisting of permanent-rehabilitation and limited-duty Postal Service employees who the Postal Service assessed under the National Reassessment Process ("NRP") between the dates of May 5, 2006, and July 1, 2011. The Postal Service utilized the NRP to ensure employees receiving workers' compensation benefits were placed in jobs consistent with their abilities, and that records regarding employees injured on the job were correct.

The *McConnell* case alleges violations of the Rehabilitation Act of 1973 resulting from the NRP's failure to provide a reasonable accommodation, the NRP's wrongful disclosure of medical information, the NRP's creation of a hostile work environment, and the NRP's adverse impact on disabled employees. The class is seeking injunctive relief and damages for individual claimants of an uncertain amount.

In 2015, the Administrative Judge assigned to handle the *McConnell* case granted in-part both the Class Agent's and the Postal Service's motions for summary judgment. In her decision, the Administrative Judge found that the NRP violated the Rehabilitation Act. The Postal Service appealed this decision to the OFO, and the OFO denied this appeal in 2018. The Postal Service implemented the OFO’s order, and notified all class members of their right to file an individual claim for relief. Class members were allowed thirty days to submit claims to the Postal Service's National Equal Employment Opportunity Investigative Services Office. The claims submission deadline has now passed and the dispute process for individual claims is currently underway before a newly assigned EEOC Administrative Judge.

The class members have the right to pursue individual claims. Should they be successful in establishing liability and damages that they assert, the ultimate outcome in this case could have a material impact on the Postal Service's financial results.

***NOTE 12 - RETIREMENT PLANS***

The majority of career employees participate in one of two U.S. government defined benefit pension programs, CSRS and FERS, which OPM administers. These plans provide retirement, death and disability benefits for eligible employees based on specific eligibility and participation requirements, vesting periods and benefit formulas. Each employee's participation in either plan is based on the starting date of employment with the Postal Service or another U.S. government entity.

As government-sponsored benefit plans, CSRS and FERS are not subject to the provisions of the *Employee Retirement Income Security Act of 1974*, as amended. Likewise, because the Postal Service cannot direct the costs, benefits or funding requirements of these plans, it accounts for program expenses under multiemployer plan accounting rules. As such, the Postal Service records contributions to the plans as an expense in the period in which each contribution is due. For FERS, the Postal Service contributes to the plan an amount established by OPM as the employer portion of retirement benefits for participating employees and their qualifying survivors, upon retirement, for each employee’s current year of service (normal cost). As further discussed below, the Postal Service is not required to pay the normal cost for those employees who participate in CSRS.

Career employees may also participate in the Thrift Savings Plan ("TSP"), a defined contribution retirement savings and investment plan administered by the Federal Retirement Thrift Investment Board. The Postal Service’s TSP expenses are related only to its contributions for FERS employees.

CSRS provides a basic annuity plan benefit to employees hired before January 1, 1984. CSRS Offset provides Social Security benefits in addition to its basic annuity plan for employees hired between January 1, 1984, and January 1, 1987. CSRS and CSRS Offset employees may also participate in the TSP, although the Postal Service does not match contributions for these participants.

The PAEA suspended the Postal Service's employer contributions to CSRS that would otherwise have been required under Title *5, Section 8334(a)(1)* of the U.S. Code, although CSRS employees continue to contribute to the plan.

Effective January 1, 1987, FERS covers employees hired since December 31, 1983, and FERS employees are covered by an annuity, Social Security and TSP benefits. For FERS employees, the Postal Service contributes 1% of basic pay and matches voluntary employee contributions up to an additional 4% of basic pay. The Postal Service recognizes Social Security and TSP expenses as they are incurred and records them within *Compensation and benefits* in the *Statements of Operations*. A liability is established for any contribution due and unpaid at the end of each reporting period. Amounts are generally expected to be paid within one year and are included within *Compensation and benefits* in the accompanying *Balance Sheets*. However, as of September 30, 2020, the Postal Service had deferred payment of approximately $1.2 billion relating to the employer portion of Social Security as authorized by the CARES Act. As this amount is not due until December 31, 2021, at the earliest, this amount has been included within *Other noncurrent liabilities* in the accompanying *Balance Sheet*.

FERS employees are further categorized as either FERS, FERS - Revised Annuity Employees ("FERS - RAE"), or FERS - Further Revised Annuity Employees ("FERS - FRAE") depending on whether their date of hire was before, during, or after calendar year 2013, respectively.

The following table presents the employee and employer contributions, as a percentage of employee basic pay, for the years ended September 30, 2020, 2019 and 2018:

| | **September 30, 2020** | | **September 30, 2019 and 2018** | |
|---|---|---|---|---|
| | **Employee Contributions** | **Postal Service Contributions** | **Employee Contributions** | **Postal Service Contributions** |
| CSRS | 7.0% | —% | 7.0% | —% |
| FERS | 0.8% | 14.7% | 0.8% | 13.7% |
| FERS-RAE | 3.1% | 12.8% | 3.1% | 11.9% |
| FERS-FRAE | 4.4% | 11.7% | 4.4% | 10.7% |

Aside from these different contribution rates, the Postal Service uses the term "FERS employees" to apply to all of the FERS employee categories as a whole.

The following table provides details for the number of active employees enrolled in CSRS and FERS for the years ended September 30, 2020, 2019 and 2018:

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| CSRS and CSRS Offset | 14,458 | 18,359 | 22,581 |
| FERS | 275,386 | 299,038 | 323,505 |
| FERS - RAE | 6,965 | 7,164 | 7,427 |
| FERS - FRAE | 198,959 | 171,900 | 142,902 |
| **Total enrollment** | **495,768** | **496,461** | **496,415** |

The following table presents the retirement benefits expenses for the years ended September 30, 2020, 2019 and 2018:

| | Year Ended September 30, | | |
|---|---|---|---|
| *(in millions)* | 2020 | 2019 | 2018 |
| FERS normal costs | $ 3,804 | $ 3,520 | $ 3,479 |
| CSRS unfunded retirement benefits amortization[1] | 1,817 | 1,617 | 1,440 |
| FERS unfunded retirement benefits amortization[2] | 1,343 | 1,060 | 958 |
| **Total retirement benefits** | **$ 6,964** | **$ 6,197** | **$ 5,877** |

[1] Expense for the accrual for the annual payment due to OPM by September 30 of the respective fiscal year, to amortize the unfunded CSRS retirement obligation. The 2020 amounts are based on updated Postal Service estimates resulting from revised actuarial assumptions. Payments are to be made through 2043 based on OPM invoices.

[2] Expense for the accrual for the annual payment due to OPM by September 30 of the respective fiscal year, to amortize the unfunded FERS retirement obligation. The 2020 amounts are based on updated Postal Service estimates resulting from revised actuarial assumptions. Payments are to be made over a 30-year rolling period based on OPM invoices.

## FERS Normal Costs

The Postal Service records expenses for FERS normal costs within *Retirement benefits* in the accompanying *Statements of Operations*.

The Postal Service makes payments for FERS normal costs in accordance with its bi-weekly payroll cycle. Any unpaid employer amounts at the end of a period, along with any employee amounts withheld but not remitted at the end of a period, are recorded as a current liability within *Retirement benefits* in the accompanying *Balance Sheets*. Those accrued amounts were $195 million and $157 million at September 30, 2020, and 2019, respectively.

## CSRS and FERS Unfunded Retirement Benefits

OPM periodically notifies the Postal Service regarding its revaluation of unfunded CSRS and FERS liabilities. OPM calculates these obligations using Postal Service-specific demographics data and government-wide economic assumptions, including salary growth assumptions. The Postal Service records these expenses as *Retirement benefits* in the accompanying *Statement of Operations*. These amounts may be significantly impacted by changes in actuarial assumptions used to revalue the unfunded liabilities.

The Postal Service received invoices from OPM in the amounts of $1.8 billion, $1.6 billion and $1.4 billion for the annual CSRS amortization payments due September 30, 2020, 2019 and 2018, respectively. The Postal Service also received invoices from OPM in the amounts of $1.3 billion, $1.1 billion, and $958 million for its 2020, 2019 and 2018 FERS amortization obligations, respectively. As indicated in *Note 3 - Liquidity*, the Postal Service did not make any of these payments in order to preserve liquidity to ensure that the ability to fulfill the primary universal service mission was not placed at undue risk.

Given that OPM considers these amounts to be due and payable, the Postal Service reflects the cumulative unpaid amounts as a current liability within Retirement benefits in the accompanying Balance Sheets. Those accrued but unpaid amounts were approximately $11.4 billion and $8.2 billion at September 30, 2020, and 2019, respectively.

**CSRS and FERS Funded Status**

For the year ended September 30, 2018, the most current period available, the Postal Service provided approximately 17% of the total plan contributions for FERS from all U.S. government employers (as disclosed in OPM's *Civil Service Retirement and Disability Fund Annual Report* dated February 2020).

As noted above, the latest available actual data for the government-wide CSRS and FERS plans is September 30, 2018. As of that date, the CSRS plan for the U.S. government, taken as a whole, was approximately 23% funded. Total plan assets and accumulated benefit obligations for the CSRS plan were approximately $243 billion and approximately $1.1 trillion, respectively. The FERS plan for the U.S. government, taken as a whole, was approximately 81% funded. Total plan assets and accumulated benefit obligations for the FERS plan were approximately $686 billion and approximately $850 billion, respectively.

## *NOTE 13 - HEALTH BENEFITS PLANS*

FEHB covers nearly all career employees and also covers non-career employees and retirees who meet certain eligibility requirements. OPM administers FEHB and allocates the cost of funding the program to participating U.S. government employers.

In 2014, the Postal Service began to offer its own separate healthcare plan to certain non-career employees who are ineligible for FEHB. For the years ended September 30, 2020, 2019 and 2018, the Postal Service incurred expenses of $172 million, $147 million and $131 million, respectively, for this plan. These amounts are included within *Compensation and benefits* under *Operating Expenses* in the accompanying *Statements of Operations*.

**Active Employees**

The Postal Service paid 72.0%, 72.0% and 72.8% of healthcare premium costs for active employees during the years ended September 30, 2020, 2019 and 2018, respectively. Although OPM determines the actual FEHB premium costs, the allocation of these costs between the Postal Service and most of its employees is determined through agreements with Postal Service labor unions.

The Postal Service's employer share of employee healthcare expenses (including Medicare taxes) was $5.2 billion, $5.1 billion, and $5.2 billion for the years ended September 30, 2020, 2019 and 2018, respectively, and these amounts are included within *Compensation and benefits* under *Operating Expenses* in the accompanying *Statements of Operations*.

**Retirees**

Postal Service retirees who participated in FEHB for the five years immediately preceding their retirement may continue to participate in the plan during retirement. Qualifying survivors of retirees are also eligible to receive benefits. The Postal Service cannot direct the costs, benefits or funding requirements of the plans. Therefore, it accounts for program expenses using multiemployer plan accounting rules by recording required contributions for both the normal cost and the amortization of the unfunded liability as expenses in the period in which the contributions are due. These amounts are included within Retiree health benefits in the accompanying audited *Statements of Operations*.

The PAEA required the Postal Service to prefund retiree health benefits during years 2007 through 2016 by paying annual amounts that were statutorily set ranging from $1.4 billion to $5.8 billion, totaling $54.8 billion, into the PSRHBF, which began paying the Postal Service's share of retiree health benefit premiums in 2017. Most federal entities and private-sector businesses are not subject to this type of prefunding requirement. Because the amounts required to be paid into the PSRHBF were set by PAEA, retiree health benefits expenses during the years 2007 through 2016 may have represented more or less than the full cost of the benefits earned by Postal Service employees during those specific years.

Beginning in 2017, the PAEA began requiring the Postal Service to pay two annual amounts into the PSRHBF:

1. An amount estimated to be equal to the employer portion of FEHB insurance premiums for participating employees and their qualifying survivors, upon retirement, attributable to each eligible employee's current year of service (normal cost); and
2. An amount sufficient to fully amortize any unfunded liability of the PSRHBF by 2056.

OPM calculates the Postal Service's unfunded liability as the amount of the PSRHBF that remains unfunded, less any scheduled or invoiced payments that it is obligated to make, regardless of whether it has made those payments or not. These amounts are based, in part, on each current and prospective retiree's length of federal civilian service occurring on or after July 1, 1971. Each participant's share of premium costs in retirement is set by law and is not subject to negotiation with Postal Service labor unions.

The Postal Service remains obligated to fund the $33.9 billion in PSRHBF prefunding payments that it defaulted on for the years 2012 through 2016, as well as the normal cost and amortization payments of $14.6 billion and $3.4 billion, respectively, that it did not pay for the years 2017 through 2020. The Postal Service notified key stakeholders including the executive branch and Congress prior to each of these non-payments. PAEA contains no provisions addressing non-payments, and as of the date of this report, the Postal Service has not been assessed any resulting penalties.

The cumulative amounts of defaulted PSRHBF prefunding, normal cost and amortization payments were $51.9 billion and $47.2 billion as of September 30, 2020, and 2019, respectively, and are recorded as *Retiree health benefits* under *Current Liabilities* in the accompanying *Balance Sheets*. Given that OPM considers these amounts to be due and payable, the Postal Service continues to reflect these amounts as a current liability within *Retiree health benefits* in the accompanying *Balance Sheets*.

The following table details retiree health benefits expenses for the years ended September 30, 2020, 2019 and 2018, based on the invoices provided by OPM:

| *(in millions)* | 2020 | 2019 | 2018 |
|---|---|---|---|
| PSRHBF unfunded liability expense[1] | $ 810 | $ 789 | $ 815 |
| Normal cost of retiree health benefits[2] | 3,850 | 3,775 | 3,666 |
| **Total retiree health benefits expense** | **$ 4,660** | **$ 4,564** | **$ 4,481** |

[1] Expense for the annual payment due by September 30 of the respective year, on the unfunded liability as calculated by OPM.

[2] Expense for the annual payment due to the PSRHBF by September 30 of the respective year, as calculated by OPM, for the actuarially determined normal cost of retiree health benefits for current employees.

As indicated above, the Postal Service recorded an expense for these invoiced amounts but did not make these payments in order to preserve liquidity to ensure that the ability to fulfill the primary universal service mission was not placed at undue risk.

***NOTE 14 - WORKERS' COMPENSATION***

Postal Service employees injured on the job are covered by FECA, and the Postal Service reimburses DOL for workers' compensation benefits paid to or on behalf of Postal Service employees, plus an administrative fee.

**Workers' Compensation Liability**

The Postal Service records a liability for its workers' compensation obligations for employees who have been injured on the job and are eligible for benefits, or their qualified survivors. The Postal Service uses an estimation model that utilizes four generally accepted actuarial valuation techniques based upon past claim-payment experience and exposure to claims as measured by total employee hours worked.

Changes in the liability are primarily attributable to the combined impacts of routine changes in actuarial assumptions, new compensation and medical cases, the progression of existing cases and changes in discount (interest) and inflation rates, including long-term COLA rates for compensation claims and medical rates for medical claims. These rates are updated as of the balance sheet date and factored into the model in accordance with GAAP.

To determine the liability each quarter, the Postal Service first estimates the future total cost of workers' compensation claims based on the dates of claim-related injuries, frequency or severity of the injuries, the pattern of historical payments to beneficiaries and the expected trend in future costs. The Postal Service then calculates the amount that would need to be invested at current discount (interest) rates to fully fund the future total cost of claims, and this calculated present value is the recorded value of workers' compensation liability.

An independent actuary assists in determining the liability for claims arising more than 15 years ago for years 1972 through 2005. The percentage increase in payments between 15-year old claims and closure of all claims is applied to the latest 15 years' estimates directly calculated within the estimation model for both compensation and medical losses.

The liability calculation is highly sensitive to changes in discount rates. For example, a 1% increase in the discount rate would decrease the September 30, 2020, liability and related expense by approximately $2.3 billion. Similarly, a 1% decrease in the discount rate would increase the September 30, 2020, liability and related expense by approximately $2.9 billion.

The following table details the applicable discount rates for compensation and medical claims used to estimate the workers' compensation liability as of September 30, 2020, 2019 and 2018:

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| **Compensation claims liability:** | | | |
| Discount rate | 1.09% | 1.90% | 3.10% |
| Long-term wage inflation | 2.60% | 2.60% | 2.60% |
| **Medical claims liability:** | | | |
| Discount rate | 1.12% | 1.91% | 3.10% |
| Historical medical inflation rate | 3.50% | 2.50% | 3.00% |

The Postal Service's total liability for workers' compensation was $20.1 billion and $18.5 billion as of September 30, 2020, and 2019, respectively. As of September 30, 2020, and 2019, the current portion of the liability was $1.3 billion and $1.4 billion, respectively, and the noncurrent portion of the liability was $18.8 billion and $17.1 billion, respectively, as reflected in the accompanying *Balance Sheets*.

**Workers' Compensation Expense**

The impacts of changes in discount rates and inflation rates, as well as the actuarial valuation of new cases and revaluation of existing cases, are components of total workers' compensation expense as recorded in the accompanying *Statements of Operations*. As described above, the Postal Service pays an administrative fee to DOL, which is also considered a component of workers' compensation expense.

The table below details the components of workers' compensation expense for the years ended September 30, 2020, 2019 and 2018:

| *(in millions)* | 2020 | 2019 | 2018 |
|---|---|---|---|
| Impact of discount rate changes | $ 1,909 | $ 2,365 | $ (1,066) |
| Actuarial revaluation of existing cases | (390) | (139) | (205) |
| Costs of new cases | 1,302 | 1,195 | 1,194 |
| Administrative fee | 82 | 83 | 81 |
| **Total workers' compensation expense** | **$ 2,903** | **$ 3,504** | **$ 4** |

*NOTE 15 - LEASES*

**<u>Postal Service Leases</u>**
The Postal Service holds lessee positions in real property leases as well as lessee positions embedded in service contracts involving rights to use transportation equipment and facilities.

Real property leases support retail, delivery, mail processing, maintenance, administrative and support activities. The non-cancellable base terms of these leases typically range from one to six years, with one or more options to renew for additional five-year terms. The lease terms for these arrangements generally range from one to thirty years including any renewal options that are reasonably certain to be exercised. Additionally, certain real property leases contain purchase and termination options. At the commencement of most real property lease arrangements, the Postal Service is not reasonably certain if it will exercise such options. Real property leases include certain variable lease payments associated with non-lease components, such as common area maintenance costs, and non-lease components such as real estate taxes, which are generally charged as a pass-through based on actual amounts incurred by the lessor. The Postal Service records costs associated with real property leases within *Other operating expenses* in the accompanying unaudited *Statements of Operations.*

Transportation equipment leases apply primarily to vehicles, trailers, and aircraft. The non-cancellable base terms of these leases typically range from two to five years, and may include one or more options to renew for an additional one or two years. The lease terms for these arrangements generally range from two to five years including any renewal options the Postal Service is reasonably certain to exercise. Transportation equipment leases do not contain purchase options, however certain of these leases contain termination options. At the commencement of most transportation lease arrangements, the Postal Service is not reasonably certain if it will exercise such termination options. Certain transportation leases contain variable lease payments based on the volume of activity under the contract. The Postal Service records costs associated with transportation leases within *Transportation* in the accompanying unaudited *Statements of Operations.*

Postal Service leases do not contain any material residual value guarantees or restrictive covenants.

Sublease income was not material to the financial statements for the year ended September 30, 2020.

The table below reconciles the undiscounted cash flows for the first five years and the total remaining finance lease liabilities and operating lease liabilities recorded in the accompanying unaudited *Balance Sheet* as of September 30, 2020:

| | **September 30, 2020** | | |
|---|---|---|---|
| *(in millions)* | **Finance Leases** | **Operating Leases** | **Total Leases** |
| 2021 | $ 54 | $ 1,264 | $ 1,318 |
| 2022 | 63 | 1,085 | 1,148 |
| 2023 | 26 | 807 | 833 |
| 2024 | 30 | 591 | 621 |
| 2025 | 20 | 417 | 437 |
| Thereafter | 126 | 691 | 817 |
| **Total undiscounted lease payments** | **$ 319** | **$ 4,855** | **$ 5,174** |
| Present value adjustment | (58) | (224) | (282) |
| **Net lease liabilities** | **$ 261** | **$ 4,631** | **$ 4,892** |

Leases that were entered into but not yet commenced as of September 30, 2020, are not significant to the Postal Service's financial statements.

Lease costs for finance and operating leases for all non-cancellable leases are set forth below for the year ended: September 30, 2020:

| *(in millions)* | | Year Ended September 30, 2020 |
|---|---|---|
| **Finance lease cost:** | | |
| Amortization of right-of-use assets | $ | 29 |
| Interest on lease liabilities | | 12 |
| **Total finance lease cost** | **$** | **41** |
| **Operating lease cost** | | **1,402** |
| **Variable lease cost** | | **706** |
| **Short-term lease cost** | | **148** |
| **Total lease cost** | **$** | **2,297** |

The following information represents supplemental cash and non-cash information as well as lease term and discount rate information separately for finance leases and operating leases, for the year ended September 30, 2020:

| *($ in millions)* | | Year Ended September 30, 2020 |
|---|---|---|
| **Finance Leases:** | | |
| Cash paid for amounts included in measurement of lease liabilities: | | |
| Operating cash flows - interest on lease liability | $ | 12 |
| Financing cash flows - principal repayments | $ | 40 |
| Right-of-use assets obtained in exchange for lease payments | $ | 15 |
| Weighted-average remaining lease term - finance leases | | 8.98 years |
| Weighted-average discount rate - finance leases | | 4.92% |
| **Operating Leases:** | | |
| Operating cash flows from operating leases | $ | 1,274 |
| Right-of-use assets obtained in exchange for operating lease liabilities | $ | 382 |
| Weighted-average remaining lease term - operating leases | | 5.40 years |
| Weighted-average discount rate - operating leases | | 1.67% |

**Disclosures Related to Period Prior to ASC 842 Adoption**
The following table provides details for total rental expense for the years ended September 30, 2019, and 2018:

| *(in millions)* | 2019 | 2018 |
|---|---|---|
| Non-cancellable real estate leases[1] | $ 1,034 | $ 984 |
| GSA facilities leases[2] | 29 | 29 |
| Equipment and other short-term rentals | 160 | 159 |
| **Total rental expense** | **$ 1,223** | **$ 1,172** |

[1] Sublease income was not material to the financial statements for the years ended September 30, 2019, and 2018.
[2] General Services Administration leases subject to 120-day cancellation notice.

Capital leases, recorded at historical cost within *Property and equipment, net* in the accompanying *Balance Sheets*, were $496 million as September 30, 2019. Total accumulated amortization related to capital leases was $377 million at September 30, 2019. Sublease income was immaterial for both the years ended September 30, 2019, and 2018.

**Lease Accounting Policies**

***Lease Accounting Policy for Comparative Periods***
As the lessee, the Postal Service classifies leases which have original lease terms greater than one year and that transfer substantially all the risks and rewards of ownership to the Postal Service, as capital leases. These leases are capitalized on the lease commencement date at the lower of the fair value of the leased assets or the present value of the minimum lease payments. The discount rate used to determine the present value is based on average U.S. Treasury rates. Property acquired under a capital lease is amortized over the lease term. Capital leases are included within *Property and equipment, net* in the accompanying *Balance Sheets*.

The Postal Service classifies all other lease arrangements in which substantially all risks and rewards of ownership are retained by the lessor as operating leases. Rent expense for operating leases is included in *Other operating expenses* in the accompanying unaudited *Statements of Operations* on a straight-line basis over the term of the lease.

***Lease Accounting Policy for the Year Ended September 30, 2020***
The Postal Service determines at the inception of the contract if an arrangement represents a lease or contains lease components. A contract is deemed to represent or include a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Postal Service is assumed to have the right to control the use of the underlying asset if the contract conveys the rights to obtain substantially all of the economic benefits of the underlying asset and the rights to direct how and for what purpose such asset is used during the contract term.

As the lessee, the Postal Service classifies all leases with original lease terms less than one year as short-term leases. The Postal Service classifies all other leases which transfer substantially all the risks and rewards of ownership to the Postal Service as finance leases. Finance lease right-of-use assets are included within *Property and equipment, net* in the accompanying *Balance Sheets*. The current and noncurrent portions of finance lease liabilities are included within *Payables and accrued expenses* and *Other noncurrent liabilities,* respectively, within the accompanying *Balance Sheets.* The Postal Service classifies the remaining leases, not classified as short-term leases or finance leases, as operating leases. The Postal Service considers a lease term to include all non-cancelable periods and renewal periods when the Postal Service is reasonably certain that it will exercise the related renewal option.

For short-term leases, the Postal Service records lease expenses in the statement of operations on a straight-line basis over the lease term.

Leases that do not qualify as short-term are recorded in the balance sheet on the lease commencement date, each as a right-of-use asset and a lease liability.

Lease liabilities are initially measured at the net present value of the lease payments due after the commencement date. For this purpose, lease payments include fixed and in-substance fixed rental payments, variable lease payments that depend on an index or rate, and the price of options that the Postal Service is, at the commencement of the lease, reasonably certain to exercise. Lease liabilities are subsequently increased to reflect the interest accrued and reduced when lease payments are made by the Postal Service.

Right-of-use assets are initially measured at the net present value of the lease payments (including amounts due prior to or on the commencement date), adjusted for the impact of initial direct costs and lease incentives. For finance leases, right-of-use assets are subsequently amortized on a straight-line basis over the shorter of the useful life of the underlying asset or the lease term. For operating leases, right-of-use assets are amortized in such a way that the combination of the interest expense accrued on the lease liability and the asset amortization results in a straight-line expense over the lease term.

Right-of-use assets for operating and finance leases are periodically reviewed for impairment losses, following the same process as for other long-lived assets. Impairment losses on long-lived assets are recorded when events or circumstances indicate that an asset's fair value is less than its carrying value. When such a determination is made, the carrying values of the assets are written down to fair value. The Postal Service uses the long-lived assets impairment guidance in ASC Subtopic 360-10, *Property, Plant, and Equipment - Overall*, to determine whether a right-of-use asset is impaired, and if so, the amount of the impairment loss to recognize. No impairment losses have been recognized to date.

The discount rates used in net present value calculations are determined based on the Postal Service's incremental borrowing rates on debt outstanding with the FFB at the beginning of each year, which is approximated as the daily U.S. Treasury Yield Curve Rates for the five-year, 10-year, 20-year and 30-year periods, plus a 12.5 basis point spread.

Variable lease payments, except for those based on an index or rate, are recognized as variable lease expenses in the period in which the obligation for those payments are incurred.

### *NOTE 16 - REVENUE FORGONE*

The Postal Service is required by law to offer below-cost postage prices to certain categories of mailers, including, but not limited to, non-profit organizations, blind individuals, local newspapers, publishers of educational material, and oversees mailers of absentee voting ballots. Between 1971, when the Postal Service became independent, and 1991, Congress reimbursed the Postal Service for the revenue it had "forgone" by offering below-cost postage prices to these mailers.

The *Revenue Forgone Reform Act of 1993* (the "RFA") phased in higher postage prices for certain of these mailers, retaining "free and reduced mail" only for the blind and for overseas absentee ballots. The RFA also authorized $1.2 billion to be paid to the Postal Service in 42 annual "installment" payments of $29 million each from 1994 through 2035 as reimbursement for revenue forgone during the RFA's 1991-to-1998 phase-in period.

#### Installment Payments

The Postal Service has recognized the present value of the installment payments as revenue and recorded a corresponding receivable, which is reduced each year that the installment payment is received. Although the RFA authorized the reimbursement, the Postal Service must submit an appropriation request to Congress each year in order to receive the annual revenue forgone payment.

During the years 2015 and 2016, Congress appropriated and paid $29 million for each of the respective annual installments. However, for the years 2011 through 2014, and for the years 2017 through 2020, the installment amounts were either not appropriated, or only a portion of the $29 million was appropriated, and therefore not received by the Postal Service in full. The total unfunded amount was $221 million as of September 30, 2020, and is included within *Other assets* in the accompanying *Balance Sheets*. The Postal Service includes the total past-due installments in each annual appropriations request to Congress. Although it has not consistently received the installment payments, the Postal Service believes that such receivables remain collectible due to the good faith and credit of the U.S. government.

Outstanding receivables associated with the installment payments, inclusive of the total unfunded amounts, were $485 million and $466 million as of September 30, 2020, and 2019, respectively. These are not expected to be paid within one year due to the prolonged appropriation process, and are therefore classified as noncurrent within *Other assets* in the accompanying *Balance Sheets*.

The Postal Service recognized interest income of $19 million, $20 million, and $20 million for the years ended September 30, 2020, 2019 and 2018, respectively, for interest imputed on the outstanding receivable for the installment payments, and this imputed interest is included within *Interest and investment income* in the accompanying *Statements of Operations*.

**Free and Reduced Mail**

Congress has historically appropriated funds each year to subsidize the Postal Service's costs to provide free and reduced mail, however the annual appropriation may be higher or lower than the amount the Postal Service requests. At the end of each fiscal year, any difference between the actual amount Congress appropriated and actual amounts the Postal Service incurred to provide the subsidy during prior periods is reflected through an adjustment of a following year's funding request. Likewise, the Postal Service recognizes revenue based upon the actual amounts the Postal Service incurred to provide the subsidy during the year.

For free and reduced mail, the Postal Service recognized revenue of $59 million, $30 million and $61 million for the years ended September 30, 2020, 2019 and 2018, respectively, and this is included within *Operating Revenue* in the accompanying *Statements of Operations*. As of September 30, 2020, and 2019, outstanding receivables associated with free and reduced mail were $7 million and $5 million, respectively, all of which were considered noncurrent and are reflected within *Other assets* in the accompanying *Balance Sheets*.

### *NOTE 17 - FAIR VALUE MEASUREMENT*

The Postal Service defines fair value based on the price that would be received upon sale of an asset or the price that would be paid to transfer a liability between unrelated parties.

The carrying amounts of certain current assets and liabilities, including cash, accounts receivable, accounts payable, accrued expenses and the current portion of debt, approximate fair value due to their short-term nature. Assets within *Property and equipment, net* are recorded at cost and measured at fair value on a nonrecurring basis if they are determined to be impaired or classified as assets held for sale.

Noncurrent receivables and long-term debt are disclosed at fair value using inputs of the fair value hierarchy. This model prioritizes observable and unobservable inputs used to measure fair value, and consists of three broad levels, as defined in the authoritative literature:

- *Level 1* inputs include unadjusted quoted prices in active markets for identical assets or liabilities as of the balance sheet date.
- *Level 2* inputs include observable data, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, observable data, other than quoted market prices for the asset or liability (i.e., interest rates, yield curves, etc.) and inputs that are derived from, or corroborated by, observable market data.
- *Level 3* inputs include unobservable data that reflect current assumptions about the judgments and estimates that market participants would use when pricing the asset or liability. These inputs are based on the best information available, including internal data.

Considerable judgment is involved in using this model to determine estimates of fair value and, accordingly, they may not necessarily be indicative of amounts that would be realized upon disposition of a specific asset or liability.

For the years ended September 30, 2020, and 2019, no significant transfers between *Level 1* and *Level 2* assets or liabilities occurred. The carrying amounts and fair value of these items are presented for disclosure purposes only in the following table:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| *(in millions)* | **Carrying Amount** | **Fair Value** | **Carrying Amount** | **Fair Value** |
| Revenue forgone installment receivable[1] | $ 485 | $ 579 | $ 466 | $ 516 |
| Long-term debt[2] | $ 11,000 | $ 11,881 | $ 11,000 | $ 11,437 |

[1] The carrying amount is included within *Other assets* (which includes items in addition to revenue forgone installment receivable) in the accompanying *Balance Sheets*.

[2] The fair value amount reflects the premium or discount associated with prepayment of all debt based on prevailing interest rates plus any prepayment penalties, as applicable.

The revenue forgone installment receivable qualifies as a financial instrument in accordance with authoritative literature. To calculate its disclosed fair value, the Postal Service recognizes the imputed interest it is owed as interest income and estimates the value of this receivable using the interest method, which converts future cash flows to a single discounted amount using interest rates for similar assets, which are considered *Level 2* inputs. The Postal Service then calculates the net present value of anticipated annual installment payments to be received, discounted by the 20-year U.S. Treasury Constant Maturity Rate, which was 1.23% and 1.94% as of September 30, 2020, and 2019, respectively.

The long-term debt also qualifies as a financial instrument. Because no active market exists for its debt with the FFB, the Postal Service estimates the disclosed fair value of the long-term debt using expected future payments at discount rates provided by the FFB, considered *Level 3* inputs. The weighted averages of the FFB discount rates, based on U.S. Treasury Yield Curve Rates, were 0.32% and 1.79% as of September 30, 2020, and 2019, respectively.

### *NOTE 18 - QUARTERLY FINANCIAL DATA (UNAUDITED)*

The following table sets forth the Postal Service's unaudited *Statements of Operations* for the quarterly periods ending September 30, 2020, and 2019:

| | 2020 | | | |
|---|---|---|---|---|
| *(in millions)* | **Quarter 1** | **Quarter 2** | **Quarter 3** | **Quarter 4** |
| Total revenue | $ 19,354 | $ 17,843 | $ 17,640 | $ 18,296 |
| Total operating expenses | 20,079 | 22,332 | 19,810 | 19,966 |
| Loss from operations | (725) | (4,489) | (2,170) | (1,670) |
| Interest income (expense), net | (23) | (26) | (40) | (33) |
| **Net loss** | **$ (748)** | **$ (4,515)** | **$ (2,210)** | **$ (1,703)** |

| | 2019 | | | |
|---|---|---|---|---|
| *(in millions)* | **Quarter 1** | **Quarter 2** | **Quarter 3** | **Quarter 4** |
| Total revenue | $ 19,717 | $ 17,495 | $ 17,093 | $ 16,849 |
| Total operating expenses | 21,226 | 19,557 | 19,333 | 19,763 |
| Loss from operations | (1,509) | (2,062) | (2,240) | (2,914) |
| Interest income (expense), net | (28) | (20) | (16) | (24) |
| **Net loss** | **$ (1,537)** | **$ (2,082)** | **$ (2,256)** | **$ (2,938)** |

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

## ITEM 9A. CONTROLS AND PROCEDURES

### DISCLOSURE CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in quarterly and annual reports is recorded, processed, summarized and reported within the time frames specified by PAEA and that this information is accumulated and communicated to management, including the Postmaster General and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

We carried out an evaluation, under the supervision and with the participation of management, including the Postmaster General and Chief Financial Officer, of the effectiveness of the design and operation of disclosure controls and procedures as of September 30, 2020. Based upon and as of the date of the evaluation, the Postmaster General and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

### CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in our internal controls over financial reporting during the quarter ended September 30, 2020, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate controls over financial reporting. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting for external purposes in accordance with GAAP. Internal control over financial reporting includes maintaining records that, in reasonable detail, accurately and fairly reflect our transactions, providing reasonable assurance that transactions are recorded as necessary for the preparation of our financial statements, providing reasonable assurance that receipts and expenditures of assets are made in accordance with management authorization and providing reasonable assurance that unauthorized acquisition, use, or disposition of assets that could have a material effect on our financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of September 30, 2020.

Ernst & Young LLP, an independent registered public accounting firm, has audited our financial statements and issued an attestation report on our internal control over financial reporting as of September 30, 2020, a copy of which appears on the following page.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Governors of the United States Postal Service

### Opinion on Internal Control over Financial Reporting

We have audited the United States Postal Service's internal control over financial reporting as of September 30, 2020, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, the United States Postal Service maintained, in all material respects, effective internal control over financial reporting as of September 30, 2020, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (the PCAOB), and in accordance with auditing standards generally accepted in the United States of America, the balance sheets of the United States Postal Service as of September 30, 2020 and 2019, the related statements of operations, changes in net deficiency, and cash flows for each of the three years in the period ended September 30, 2020 and the related notes and our report dated November 13, 2020 expressed an unqualified opinion thereon that included an explanatory paragraph regarding the United States Postal Service's ability to generate sufficient cash flow to meet all of its financial obligations throughout their fiscal year ending September 30, 2021.

### Basis for Opinion

The United States Postal Service's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the United States Postal Service's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the United States Postal Service in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Tysons, Virginia
November 13, 2020

## ITEM 9B. OTHER INFORMATION

None.

## PART III

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

### BOARD OF GOVERNORS

We are governed by an eleven-member Board which generally consists of our Postmaster General, Deputy Postmaster General and nine independent Governors. The Governors are appointed by the President with the advice and consent of the Senate. Six Governors currently sit on our Board:

| Name, Age and Term of Office | Positions and Experience |
|---|---|
| **Robert M. Duncan**<br>Chairman of the Board of Governors<br>Age 69<br>Governor since August 2018.<br>Term expiring December 2025. | Member of the Board of Governors since August 2018, and Chairman of the Board since September 2018. Chairman of the Compensation and Governance Committee and Chairman of the Audit and Finance Committee from September 2018 to September 2019. Member of the Operations Committee since June 2020. Chairman of the Board of Trustees at Alice Lloyd College. Former Chairman of the Board of Directors of the Tennessee Valley Authority. Former Chairman of the Republican National Committee. |
| **John M. Barger**<br>Age 64<br>Governor since August 2019.<br>Term expiring December 2021. | Member of the Board of Governors since August 2019. Chairman of the Compensation and Governance Committee and member of the Strategy and Innovation Committee since September 2019. Chairman of the Communications Committee and member of the Election Mail Committee since September 2020. Managing Director, NorthernCross Partners. For seven years served as board member of the Los Angeles County Employees Retirement Association (LACERA), including on the Board of Retirement and Board of Investments (former Chairman). |
| **Ron A. Bloom**<br>Age 64<br>Governor since August 2019.<br>Term expiring December 2020. | Member of the Board of Governors since August 2019. Chairman of the Strategy and Innovation Committee and member of the Audit and Finance Committee since September 2019. Member of the Election Mail Committee since September 2020. Vice Chairman and Managing Partner, Brookfield Asset Management. Serves on Board of Directors of Westinghouse Electric Company and Clarios. Former Vice Chairman, U.S. Investment Banking, Lazard. |
| **Roman Martinez IV**,<br>Age 72<br>Governor since August 2019.<br>Term expiring December 2024. | Member of the Board of Governors since August 2019. Chairman of the Audit and Finance Committee and member of the Compensation and Governance Committee since September 2019. Member of the Communications Committee since September 2020. Member of the Board of Directors of Cigna Corporation, Board of Trustees of New York-Presbyterian Hospital, and Board of Overseers of the International Rescue Committee. Former Vice Chairman of the Investment Advisory Council of the State Board of Administration of Florida, and former Managing Director, Lehman Brothers. |
| **Donald L. Moak,**<br>Age 63<br>Governor since June 2020.<br>Term expiring December 2022. | Member of the Board of Governors since June 18, 2020. Member of the Operations Committee and Compensation and Governance Committee since August 2020. Chairman of the Election Mail Committee and member of the Communications Committee since September 2020. Co-founder and Chief Executive Officer of The Moak Group, a public affairs, advocacy, and business consulting firm. Former Marine Corps captain, Navy fighter pilot, Delta Airlines B-767 pilot, and president of the Air Line Pilots Association. |
| **William D. Zollars,**<br>Age 73<br>Governor since June 2020.<br>Term expiring December 2022. | Member of the Board of Governors since June 2020. Chairman of the Operations Committee and member of the Audit and Finance Committee since August 2020. Serves on Board of Directors of Cerner Corporation, ProLogis Inc., C2FO, Redstone Logistics, and Main Street Data. Former president and chief executive officer of YRC Worldwide, Inc. |

### *AUDIT AND FINANCE COMMITTEE*
The Audit and Finance Committee ("Audit Committee") is composed of Governor Martinez (Chair), Governor Bloom (member) and Governor Zollars (member). Governors Martinez, Bloom and Zollars and are all considered independent, as defined by the rules of the SEC. The Board has determined that Governors Martinez and Bloom each qualify as an "audit committee financial expert."

### *COMPENSATION AND GOVERNANCE COMMITTEE*
The Compensation and Governance Committee is composed of Governor Barger (Chair), Governor Martinez (member), and Governor Moak (member).

### *OPERATIONS COMMITTEE*
The Operations Committee is composed of Governors Zollars (Chair), Governors Moak (member) and Governor Duncan (member).

### *STRATEGY AND INNOVATION COMMITTEE*
The Strategy and Innovation Committee is composed of Governor Bloom (Chair), Governor Barger (member) and Postmaster General DeJoy (member).

### *COMMUNICATIONS COMMITTEE*
The Communications Committee (Special Committee) is composed of Governor Barger (Chair), Governor Martinez (member) and Governor Moak (member).

### *ELECTION MAIL COMMITTEE*
The Election Mail Committee (Special Committee) is composed of Governor Moak (Chair), Governor Barger (member) and Governor Bloom (member).

## EXECUTIVE OFFICERS

We had eleven executive officers as of September 30, 2020, as per the schedule below:

| Name and Age | Positions and Experience |
|---|---|
| **Louis DeJoy**<br>Age 62 | 75th Postmaster General, Chief Executive Officer and a member of the Board since June 2020; President of LDJ Global Strategies, LLC since January 2016; Member of Board of Directors for XPO Logistics, Inc. from December 2015 to May 2018. Prior to that, Chief Executive Officer, XPO Logistics Supply Chain in the Americas from September 2014 until his retirement in December 2015. Prior to that, Chairman and CEO of New Breed Logistics until September 2014. |
| **Scott R. Bombaugh**<br>Age 58 | Acting Chief Technology Officer & Executive Vice President as of August 2020. Previously, Vice President Engineering Systems from January 2019 to March 2020; Director, Technology Development and Application from December 2011 to January 2019. |
| **Joseph Corbett**<br>Age 60 | Chief Financial Officer and Executive Vice President since 2009, except for the period from June 20, 2012 through September 30, 2012, when he served as Acting Chief Information Officer and Executive Vice President. |
| **Isaac S. Cronkhite**<br>Age 42 | Chief Human Resources Officer and Executive Vice President since January 2019 (in an acting capacity until June 2019). Previously, Vice President, Enterprise Analytics from May 2016 to June 2019; Manager, Processing Operations from June 2015 to May 2016. |
| **Luke T. Grossmann**<br>Age 41 | Finance and Strategy Senior Vice President since August 2019. Previously, Finance and Planning Vice President from March 2016 to August 2019. Prior to that, Director, Operations Research, Insight and Continuous Improvement since February 2016; Manager Package Platform since May 2014. |
| **Thomas J. Marshall**<br>Age 58 | General Counsel and Executive Vice President since May 2013. |
| **Pritha Mehra**<br>Age 58 | Acting Chief Information Officer and Executive Vice President as of August 2020. Previously, Vice President, Information Technology from July 2019 to March 2020; Vice President, Business Mail Entry and Payment Technology from July 2008 to July 2019. |
| **Steven W. Monteith**<br>Age 60 | Acting Chief Customer & Marketing Officer and Executive Vice President as of August 2020. Previously, Vice President, Marketing from October 2016 to March 2020; Manager, Pricing from November 2013 to August 2016. |
| **Kristin A. Seaver**<br>Age 52 | Chief Retail & Delivery Officer and Executive Vice President, Retail and Delivery Operations, as of August 7, 2020. Previously, Chief Information Officer and Executive Vice President from April 2016; Vice President, Capital Metro Area Operations from October 2013 to April 2016. |
| **Jacqueline Krage Strako**<br>Age 54 | Chief Commerce & Business Solutions Officer and Executive Vice President, Commerce & Business Solutions, as of August 7, 2020. Previously, Chief Customer and Marketing Officer and Executive Vice President from December 2018. Prior to that, Acting Chief Customer and Marketing Officer and Executive Vice President from February 2018 to December 2018; Great Lakes Area Operations Vice President from February 2012 to February 2018. |
| **David E. Williams, Jr**<br>Age 55 | Chief Logistics & Processing Operations Officer and Executive Vice President, Logistics and Processing, as of August 7, 2020. Previously, Chief Operating Officer and Executive Vice President since February 2015. |

## CODE OF ETHICS

All our employees are required to comply with the Standards of Ethical Conduct for Employees of the Executive Branch ("Standards"). The Standards are published in the Code of Federal Regulations ("CFR") at *5 CFR Part 2635* and cover prohibitions and restrictions on the acceptance of gifts, conflicting financial interests, the obligation of all employees to perform their duties impartially, restrictions on the misuse of government positions, restrictions on certain outside activities and other related ethical obligations.

Our employees are also covered by a set of additional restrictions that apply only to Postal Service employees. These "Supplemental Standards" can be found at *5 CFR Part 7001* and focus on limitations on outside employment and outside business activities that could give rise to a conflict with their official duties.

The Standards and the Supplemental Standards contain many examples to help employees identify and resolve ethical issues. New employees receive ethics training at their orientation and ethics officials provide training throughout the year as required by law and as otherwise deemed appropriate. To ensure that all our employees can receive timely and accurate ethics advice, we have established a dedicated ethics telephone helpline and an email address that is managed by ethics specialists.

Certain high-level employees are also subject to the Senior Financial Managers' Code of Ethics. This Code of Ethics can be found on our website at: *https://about.usps.com/who-we-are/financials/senior-financial-managers-code-of-ethics-09-29-2020.pdf*

## ITEM 11. EXECUTIVE COMPENSATION

## COMPENSATION DISCUSSION AND ANALYSIS

The Board establishes officer compensation and benefits, subject to the requirements and limitations of federal law. The Board has delegated to its Compensation Committee authority for initial review of management proposals related to compensation and benefits for the officers. The Compensation Committee makes recommendations to the full Board for its review and approval.

Set forth in Title 39 of the U.S. Code, federal law provides that compensation and benefits for all of our officers shall be comparable to the compensation and benefits paid for comparable levels of work in the private sector of the economy. With approximately 644,000 employees as of the end of 2020, we are the second largest civilian employer in the nation. We operate approximately 232,000 motor vehicles and approximately 31,000 retail units. In 2020, we delivered 129.2 billion mailpieces, approximately 48% of the world's mail, and generated over $73 billion in revenue. In 2020, we ranked 141st in *Fortune* magazine's listing of *Fortune Global 500* companies. By way of comparison, two of our largest competitors ranked 129th and 148th on this list. If we were listed on the *Fortune 500* annual ranking of America's largest corporations, we would be ranked 46th. The same two of our largest competitors are ranked 43rd and 47th on that list.

Comparably sized companies typically provide their top executives with annual salaries well in excess of $1 million and total compensation and benefits valued at several million dollars. These compensation packages typically consist of annual and long-term performance incentives, including a combination of cash payments and stock options and a number of benefits and perquisites.

Although our governing law provides that officers should be compensated at a level comparable to the private sector, the law does not afford the Board or the Compensation Committee the tools to achieve this standard of compensation for our officers, which remains significantly below that of similarly ranked senior executives in the private sector.

The law imposes three different compensation caps. The first cap provides that no officer or employee may be paid compensation "at a rate in excess of the rate for level I of the Executive Schedule under *Section 5312* of Title 5" of the U.S. Code *39 U.S.C. §1003(a)*. In calendar year 2020, the upper limit on federal salaries rose 2.6% to $219,200.

With the approval of the Board, we may develop a program to award a bonus or other reward in excess of the compensation cap discussed above, as long as the total compensation paid to the officer in a year does not "exceed the total annual compensation payable to the Vice President [of the United States] under [*3 U.S.C. §104*] as of the end of the calendar year in which the bonus or award is paid." *39 U.S.C. §3686(a)-(b)*. In calendar year 2020, this cap rose 2.6% to $253,300. The Board may approve a program allowing for bonuses or other rewards if it determines, for the annual appraisal period involved, that the performance appraisal system for impacted employees makes meaningful distinctions based on relative performance.

In addition, the Board may allow up to 12 of our officers or employees in critical senior executive or equivalent positions to be paid total annual compensation up to "120 percent of the total annual compensation payable to the Vice President [of the United States] under [*3 U.S.C. §104*] as of the end of the calendar year in which such payment is received." *39 U.S.C. §3686(c)*. Based on the Vice President's salary for calendar year 2020, the compensation cap for calendar year 2020 was $303,960.

By law, our employees, including officers, are entitled to participate in either CSRS or FERS, depending on when their federal employment began. As applicable to our officers, these retirement systems are described later in this *Compensation Discussion and Analysis*. In addition, in order to remain competitive with comparable employment in private industry and other parts of the U.S. government, our policy also authorizes certain additional benefits for our officers. Other than changes required by law, the Board must authorize increases to benefits for officers.

### *COMPENSATION PHILOSOPHY AND OBJECTIVES*

The Board recognizes that a significant disconnect exists between the comparability requirement and the compensation caps in the law governing us and that the various compensation caps do not enable the Board to provide compensation and benefits for our officers that are fully comparable to those in the private sector. This is especially true given our current financial challenges. The Board also recognizes that many of the compensation and benefit tools available in the private sector, such as equity ownership, are not available to us, given our status as a U.S. government entity. These limitations hinder our ability to competitively recruit in the marketplace for officers and to retain current officers.

In an attempt to achieve some level of comparability within the confines of the law, the Board designed a compensation system intended to balance an officer's annual salary with the ability to earn additional compensation by meeting performance goals and objectives; however, because of the compensation caps discussed above, a portion of this compensation might need to be deferred.

At the start of calendar year 2020, the compensation system operated pursuant to its terms, and eligible officers received an increase in their basic compensation or a performance lump-sum payment based upon their 2019 fiscal year performance. Uncertainty about future payments and the viability of the compensation system continues to impact our ability to retain and recruit talented employees, including officers.

Within the confines of its legislative authority and our financial constraints, the Board's compensation philosophy is that:

- Individual officer compensation should be strongly connected to our performance on a number of dimensions, including service, net income, employee safety, and productivity;
- Compensation and benefits should be designed to attract and retain high-performing officers to ensure that we have the caliber of officers who will enable us to operate at the highest levels of performance and productivity;
- Lump-sum incentives should be set to motivate officers to improve performance continuously on a long-term basis and to perform above the annually established goals and objectives. If individual performance exceeds the goals and objectives set for the year, the employee should receive additional compensation. Likewise, if overall performance falls below the annual goals and objectives, the individual could be paid less;
- A significant amount of the officer's compensation should be "at-risk" and the "at-risk" amount should increase as the officer's level of responsibility increases;

- Innovation, effectiveness as an agent for change, the ability to balance day-to-day priorities and long-term strategies, and organizational value as defined by the achievement of key corporate goals and objectives should be rewarded;
- Officer compensation should be fair and equitable internally, recognizing the width and breadth of the responsibilities of our officers; and
- Officer success is defined by a number of factors, including financial returns, the quality of service we provide, the results achieved by the officer's actions to enhance the organization's efficiency and overcome challenges and whether an officer met established individual goals.

***THE COMPENSATION PROGRAM***

In 2007, with the assistance of an independent consulting firm specializing in officer compensation, the Compensation Committee recommended and the Board approved a salary band for the Postmaster General to be set at the legislative salary cap. In doing so, the Board's objectives were to design a compensation program that optimized the legislative flexibility granted by the PAEA, improved external marketplace competitiveness and honored legislative constraints and existing pay ranges. For the other officers, the Board sets salary ranges based on salary relationships of comparable officers in the external market. In general, the Board has maintained this method of setting officer pay ranges since 2007.

The Governors have authorized the Postmaster General to establish salaries for the other officers within the confines of the salary ranges established by the Governors. As noted above in *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations*, after reviewing recommendations from the Postmaster General, the Governors approved the application of the PFP system according to its terms.

In 2020, we continued to employ a national performance assessment program ("Performance Assessment") to set annual performance goals and metrics that vary among officers and are weighted to reflect appropriately the degree to which an officer is able to influence our overall performance. The annual Performance Assessment metrics and targets generally take into consideration our performance during the prior fiscal year and the particular challenges that we anticipate having to face during the following year. The Performance Assessment places emphasis on measurable financial, customer service, and employee performance indicators. The Postmaster General and Deputy Postmaster General performance goals are governed by our corporate goals.

The officer compensation system is intended to operate as follows: The Board establishes annual PFP incentives to provide opportunities for the Postmaster General and the Deputy Postmaster General to earn enhanced compensation, directly tied to the level of their performance. The Postmaster General establishes annual PFP incentives for other officers, to provide them opportunities to earn increased compensation based upon their performance. Incentive payouts are not to be made for a particular goal if the Postal Service or the individual fails to meet minimum acceptable performance standards. The payment of PFP incentives may sometimes be deferred for future payment where required due to the compensation caps discussed above.

Our economic challenges have continued to persist over the last several years and these challenges have caused uncertainty as to whether officer salary increases or performance bonuses will be awarded on a year-to-year basis. This uncertainty is largely driven by our flawed business model which limits our ability to be financially successful, and which can only be corrected by comprehensive Postal Service legislation and regulatory reform.

The Governors in the past have repeatedly stated that our economic challenges must be remedied in the near future, and are concerned that if this situation continues much longer, it will further erode our ability to retain highly qualified individuals as officers and to recruit the best qualified individuals from the marketplace, if external hiring is deemed the best solution to fill critical officer vacancies. Additionally, our financial constraints, which largely are the products of structural defects that only Congress can remedy, have prevented us from fully complying with the statutory mandate that we compensate our officers in a manner comparable with their private-sector counterparts.

We continued to use the Performance Assessment process to measure performance during 2020. Performance Assessment performance goals and rewards fall into several categories that an officer may directly influence, such as service, efficiency, safety and productivity, as well as those that are more susceptible to general economic conditions, such as revenue generation.

For each goal, the Postmaster General establishes indicators identifying the type of performance that will enable us to achieve or surpass the goal. These indicators are aligned at the corporate, functional and individual levels and are weighted. The higher an individual's position is in the organization, the more his or her PFP goals will be tied to our overall corporate performance. The officers' goals are aligned with national performance goals and linked to our overall success.

Once the goals and indicators are established, officers are advised as to what is expected of them in terms of performance during the year, how their performance will impact us, and, in years when incentives are authorized, the potential level of performance-based incentives they can expect depending on their individual performance and our performance as a whole. Under this program, an individual officer can receive a numerical rating within a range of 1 to 15 depending on how we perform on the corporate indicators and the individual's performance, as determined by the Postmaster General and the applicable pay policies.

The system is designed to operate as follows: an individual officer's performance rating would make the officer eligible for an increase to base salary, as well as for a performance-based lump-sum payment. Due to statutory cap limitations, increases to the maximum of the salary range for officers would generally follow the percentage increase in the applicable statutory cap for any given year. Any salary increases for officers are limited by these maximums and are solely performance based, as determined by the Postmaster General. Lump-sum incentive payments would be tied to the Postmaster General's rating of the officer's performance, based on the degree to which the individual achieved previously set individual goals and metrics. The Postmaster General's discretion on PFP incentives for officers in a given year is limited by our overall performance on Performance Assessment goals and metrics. Generally, officer performance scores must average to our overall Performance Assessment performance score for the fiscal year. Salary increases, if any, are generally determined after the end of the fiscal year, and such increases become effective for the following calendar year.

### *COMPONENTS OF OFFICER COMPENSATION AND BENEFITS*

On September 9, 2020, the Board reviewed and approved a consolidated Officer Pay Policy, which updated and memorialized the Postmaster General's authority to grant certain incentive payments to officers and also provided for severance payments for officers under certain circumstances. Specifically, the policy provides severance in an amount of one year’s salary to an officer if he or she is asked to separate from the Postal Service for any reason other than cause and he or she is otherwise not eligible to retire and receive an immediate retirement annuity. Severance may be paid in a single lump sum payment or multiple payments following the date of an officer’s separation from the Postal Service. Officers that voluntarily separate from the Postal Service will not be entitled to receive severance.

#### Base Salary

Base salaries provide a level of financial security that is appropriate for the officer's position. Within the confines of law and our difficult financial condition, base salaries are to be scaled within pay ranges designed to be competitive with the market median. As discussed above, maximum payouts in a given year are set by federal law. Officer salaries are reviewed at least annually and adjusted, as appropriate and when permitted by financial constraints, to reflect individual performance, range of responsibilities, value and contribution to the organization, and experience.

#### Annual Incentive

Annual incentives serve as a mechanism for adjusting total compensation levels commensurate with the attainment of planned results, thereby ensuring affordability and appropriate performance that benefits us. As discussed above, we use the Performance Assessment to set annual corporate performance goals and metrics. The Governors set the goals and indicators for the Postmaster General and the Deputy Postmaster General, and the Postmaster General establishes goals and indicators for the other officers. The Postmaster General's and the Deputy Postmaster General's performance is determined based on the degree to which they have achieved previously set goals and metrics. Likewise, officers' individual performance ratings are determined by the Postmaster General based on the degree to which the individual has achieved the previously set goals and metrics.

#### Other Compensation Incentives

Officers are also eligible for recognition awards for specific activities that reflect a high degree of leadership. Officers are eligible for recruitment, relocation and retention incentives designed to attract and retain highly talented and marketable individuals in key positions. Payments of some of these incentives may be deferred, in whole or in part, due to the compensation limits imposed on our employees as more fully discussed above.

**Retirement Annuities**

Officers are covered either by CSRS or FERS, depending on when they began their federal employment. Both systems have a defined benefit component and a defined contribution component. CSRS and FERS service is creditable for Medicare coverage. FERS service is creditable for Social Security.

***CSRS Defined Benefit***

The CSRS Basic Benefit annuity is based on a percentage of the *high-three* salary multiplied by years of service. The percentage is 1.5% for the first five years of service, plus 1.75% from five years to ten years of service and 2% for all years of service thereafter. Optional retirement thresholds are age 55 with 30 years of service, age 60 with 20 years of service, and age 62 with five years of service, with a requirement of completing at least five years of creditable civilian service. The annuity is fully indexed to the Consumer Price Index ("CPI"). Disability, early retirement, deferred and survivor benefits are available.

***FERS Defined Benefit***

The FERS Basic Benefit annuity is based on 1.0% of *high-three* salary per year of service, or 1.1% for retirement at age 62 with at least 20 years of service. Optional retirement thresholds are the Minimum Retirement Age ("MRA") of 55 to 57 (depending on birth year) with 30 years of service, age 60 with 20 years of service, age 62 with five years of service, or MRA with ten years of service (at a reduced benefit), with a requirement of completing at least five years of creditable civilian service. Employees who retire at MRA with 30 years of service, or at age 60 with 20 years of service, receive a retirement supplement approximating the value of Social Security benefits attributable to federal service; this benefit is paid until age 62. Beginning at age 62, the annuity is indexed to CPI, fully when the CPI increase is 2% or less, at 2% when the CPI increase is between 2% and 3%, and at CPI minus 1% when the CPI is at least 3%. Disability, early retirement, and deferred and survivor benefits are available.

***Defined Contribution***

The TSP has a component that mirrors traditional 401(k) plans and an option similar to "Roth" plans. CSRS and FERS employees may contribute up to the indexed IRS maximum ($19,500 in calendar year 2020). We do not make or match TSP contributions for CSRS employees. For FERS employees, we make an automatic contribution of 1% of basic pay and match a percentage of employee contributions for up to an additional 4% of basic pay, for a total employer contribution of up to 5% of basic pay. Employees who will be at least age 50 in the year of contribution may make a separate catch-up contribution up to the indexed IRS maximum ($6,500 in calendar year 2020). TSP investment options are a government securities fund; index funds that track the Barclays Capital Aggregate Bond Index, the S&P 500, the Dow Jones U.S. Completion TSM Index, and the Morgan Stanley Capital International EAFE (Europe, Australasia and Far East) stock index; and lifecycle funds.

**Supplemental Nonqualified Deferred Compensation**

Where appropriate and on a highly selective basis, we have offered supplemental nonqualified deferred compensation as a recruitment or retention tool.

**Life Insurance**

Officers are entitled to *Basic* group life insurance coverage under the Federal Employees Group Life Insurance ("FEGLI") program in the amount of their annual basic salary, rounded up to the next $1,000, plus $2,000. If *Basic* coverage is held, an officer will also receive an additional $10,000 coverage (*Option A*) and *Option B* coverage up to three times their salary. We pay all premiums for *Option A*, *Option B* and *Basic* coverage.

At their own expense, officers may elect additional *Option B* coverage in an amount equal to two times their salary, or *Option C*, family optional insurance coverage, of up to five multiples of $5,000 for their spouse and $2,500 for each eligible dependent child under age 22. Officers continuously covered under FEGLI for the five years of service immediately preceding retirement, or since the first opportunity to enroll, may continue coverage during retirement (if entitled to an immediate annuity). We pay retired officers an actuarially determined lump sum to cover the cost of *Option A* premiums during retirement.

**Health Benefits**

We participate in FEHB, which allows all career employees to enroll in one of a number of *Self-Only*, *Self-Plus-One* or *Self and Family* health benefit plans offered. We pay a portion of the cost of the premium for our officers and executives. In 2020, our share of the premium remained at 72% of the federal weighted average premium, limited to not more than 75% of the total premium for any given plan, and enrolled officers and executives paid the balance of the premium for the plan they selected. Employees who retire with immediate entitlement to an annuity are eligible to continue FEHB coverage into retirement, as long as they have participated in FEHB for the five years preceding their retirement or since their first opportunity to enroll.

**Other Benefits**

To remain competitive in the marketplace, we offer the following additional benefits to our executive officers: periodic physical examinations or *Wellness* reimbursement incentive, parking, financial planning, retirement counseling services, TSA Pre-Check reimbursement, and membership in up to two airline clubs per year. In certain circumstances executives are entitled to relocation benefits at the time of their retirement. In November 2015, the Governors, in connection with their annual review of the compensation and benefits for the Postmaster General and Deputy Postmaster General, clarified and updated their policies to provide that the Postmaster General and Deputy Postmaster General are entitled to a separation payment in an amount of one year's salary if either is asked to separate from the Postal Service for any reason other than for cause and they are otherwise ineligible for immediate retirement (not including early retirement, discontinued service retirement, or retirement at the minimum retirement age with less than 30 years of service). Severance may be paid in a single lump-sum payment or in bi-weekly payments following the date of separation.

## COMPENSATION AND GOVERNANCE COMMITTEE REPORT

The Compensation Committee has reviewed and discussed the *Compensation Discussion and Analysis* with management, and, based on such review and discussions, the Compensation Committee recommended to the Governors that this *Compensation Discussion and Analysis* be included in this report.

**The Compensation and Governance Committee**
John M. Barger, Chair
Roman Martinez IV
Donald L. Moak

## SUMMARY COMPENSATION TABLE

The following represents the compensation of our Postmaster General and Chief Executive Officer (including both individuals who served in that role during 2020), Chief Financial Officer and our other three most highly compensated executive officers ("named executive officers"):

| Name and principal position | Fiscal year | Salary | Bonus[4] | Non-equity incentive plan compensation[5] | Change in pension value and non-qualified deferred compensation[6] | All other compensation[7] | Total |
|---|---|---|---|---|---|---|---|
| Louis DeJoy, *Postmaster General & Chief Executive Officer*[1] | 2020 | $ 87,537 | $ — | $ — | $ 11,827 | $ 18,100 | $ 117,464 |
| | 2019 | — | — | — | — | — | — |
| | 2018 | — | — | — | — | — | — |
| Megan J. Brennan, *Former Postmaster General & Chief Executive Officer*[2] | 2020 | 212,965 | 10,000 | 35,000 | — | 96,628 | 354,593 |
| | 2019 | 291,650 | — | — | 37,758 | 32,805 | 362,213 |
| | 2018 | 290,565 | — | 11,505 | 329,008 | 31,726 | 662,804 |
| Joseph Corbett, *Chief Financial Officer & Executive VP* | 2020 | 266,895 | 1,757 | 35,000 | 88,774 | 27,479 | 419,905 |
| | 2019 | 259,280 | 1,825 | 35,000 | 71,303 | 22,705 | 390,113 |
| | 2018 | 259,280 | 3,105 | 35,000 | 98,178 | 21,584 | 417,147 |
| Thomas J. Marshall, *General Counsel & Executive VP* | 2020 | 264,776 | 11,757 | 12,861 | 140,576 | 22,593 | 452,563 |
| | 2019 | 257,220 | 983 | — | 110,568 | 22,044 | 390,815 |
| | 2018 | 257,220 | 13,394 | — | 189,364 | 22,281 | 482,259 |
| Jacqueline Krage Strako, *Chief Commerce & Business Solutions Officer and Executive VP*[3] | 2020 | 267,279 | 1,757 | — | 263,339 | 21,728 | 554,103 |
| | 2019 | 251,806 | 30,983 | — | 133,844 | 19,773 | 436,406 |
| | 2018 | — | — | — | — | — | — |
| David E. Williams Jr., *Chief Logistics & Processing Operations Officer and Executive VP* | 2020 | 267,279 | 1,757 | — | 204,478 | 22,556 | 496,070 |
| | 2019 | 259,280 | 2,668 | — | 159,794 | 20,881 | 442,623 |
| | 2018 | 258,725 | 3,115 | — | 306,415 | 20,628 | 588,883 |

[1] Mr. DeJoy was selected as the Postal Service's 75th Postmaster General and Chief Executive Officer by the Postal Service Board of Governors, effective June 15, 2020, and, as such, information for 2019 and 2018 is not reported.

[2] Ms. Brennan served as the Postal Service's 74th Postmaster General and Chief Executive Officer until her retirement in June 2020.

[3] Ms. Strako was appointed Chief Customer/Marketing Officer & Executive VP on November 24, 2018. Ms. Strako was not an executive officer in 2018 and, as such, information for that year is not reported.

[4] Ms. Strako received a $30,000 recruitment incentive in December 2018.

[5] Amounts reflect the performance-based incentive compensation awarded to executive officers for performance in prior fiscal years. The amount shown for Mr. Corbett also reflects the lump sum performance retention payment required by his employment agreement. Any amounts that could not be paid to an executive officer, due to the compensation cap or their contract, were deferred for future payment and are also reflected in the nonqualified deferred compensation table below.

[6] Mr. DeJoy, Ms. Brennan, Mr. Corbett, Mr. Marshall, Ms. Strako, and Mr. Williams participate in FERS. The calculation of retirement annuities under FERS is explained in the Pension Benefits table, the associated note and in the Retirement Annuities section of Compensation Discussion and Analysis. The amounts shown for each of these individuals represent the change in annuity value from the prior year. "Nonqualified deferred compensation earnings" is defined as above-market earnings on deferred income. There were no reportable amounts of nonqualified deferred compensation earnings for the named executive officers in 2020, 2019 or 2018, with the exception of Mr. Corbett, whose above-market earnings on deferred income were $3,324 in 2020, $2,733 in 2019, and $2,353 in 2018.

[7] A severance payment was issued to Ms. Brennan, per BOG resolution, in September 2020.

## GRANTS OF PLAN-BASED AWARDS

The following table presents information regarding potential non-equity incentive awards to the named executive officers for 2020. Whether a named executive officer receives an award and, if so, the amount of an award for 2020 will depend on both the Postal Service's and the individual's performance.

| | Estimated future payouts under non-equity incentive plan awards | | | |
|---|---|---|---|---|
| **Name** | **Grant date** | **Threshold** | **Target** | **Maximum** |
| Louis DeJoy | November 2020 | $ 12,138 | $ 36,415 | $ 113,798 |
| Joseph Corbett | November 2020 | 10,788 | 32,364 | 101,138 |
| Thomas J. Marshall | November 2020 | 10,702 | 16,054 | 100,335 |
| Jacqueline Krage Strako | November 2020 | 11,188 | 33,564 | 104,888 |
| David E. Williams Jr. | November 2020 | 11,188 | 33,564 | 104,888 |

Note: The PFP program relies on a 15-point scale with clearly defined and transparent corporate goals. The PFP target in any given year is set at a rating of 6. The maximum threshold for payment is set at a rating of 15. Individual ratings vary but the corporate score is used as the regulator. Given our financial condition, any individual award is unlikely to exceed the target amount.

## PENSION BENEFITS

The following table shows the present value of accumulated pension benefits payable to the named executive officers as of September 30, 2020:

| Name | Plan name | Number of years credited service | Present value of accumulated benefit |
|---|---|---|---|
| Louis DeJoy | FERS Annuity | 0.3 | $ 11,827 |
| Joseph Corbett | FERS Annuity | 11 | 565,973 |
| Thomas J. Marshall | FERS Annuity | 25 | 1,256,659 |
| Jacqueline Krage Strako | FERS Annuity | 31 | 1,549,983 |
| David E. Williams Jr. | FERS Annuity | 33 | 1,951,963 |

Note: All named executive officers are eligible for FERS. The plan is described in the *Retirement Annuities* section within *Compensation Discussion and Analysis*. The present value of the accumulated FERS benefit represents the value of the pension over the individual's actuarial lifetime, as of September 30, 2020. Mr. DeJoy, Mr. Corbett, Mr. Marshall, Ms. Strako, and Mr. Williams participate in FERS. The valuation for all named executive officers assumes that they have satisfied vesting requirements for retirement; however, because of their current tenure with the Postal Service or their age, their retirement annuities have not fully vested.

## NONQUALIFIED DEFERRED COMPENSATION

The following table presents contributions to, and earnings on, the named executive officers' deferred compensation for 2020:

| Name | Executive contributions in 2020[1] | Aggregate earnings in 2020[2] | Aggregate withdrawals / distributions in 2020 | Aggregate balance at September 30, 2020 |
|---|---|---|---|---|
| Megan J. Brennan | $ — | $ 3,638 | $ — | $ 89,675 |
| Joseph Corbett | 35,000 | 19,265 | — | 484,206 |

[1]This column represents amounts deferred due to the compensation cap or contract agreements. The amount shown for Mr. Corbett reflects the lump-sum performance retention payment required by his employment agreement which has been deferred.

[2]We calculate interest on deferred compensation semi-annually at 5.0% per year for Mr. Corbett per his contract, others are calculated at the Federal Long-Term Rate; 1.00% in 2020. Interest is prorated from the relevant pay period of the deferral.

## POTENTIAL PAYMENTS UPON TERMINATION

The Postmaster General and all the other named executives are subject to the standard policies governing CSRS or FERS, as described in the *Compensation Discussion and Analysis*. The present value of these CSRS and FERS benefits are found in the Pension Benefits table in the O*fficer Compensation* section of this report. The information below describes and quantifies certain compensation, in addition to that due pursuant to CSRS or FERS, that would become payable under existing plans and arrangements if the named officer's employment had terminated on September 30, 2020. Additionally, pursuant to statutes and regulations generally applicable to federal employees, the named executive officers would be entitled to receive the federal employer's standard contribution toward retiree health benefits, in the event they have qualifying service and participated in FEHB for the requisite period of time prior to retiring.

### *DEFERRED COMPENSATION*

All federal employees, including our employees, are subject to annual compensation limits established pursuant to federal statutes and regulations. When amounts earned by federal employees cannot be paid because of these compensation limits, these payments are deferred until a year in which their payment would not cause total annual compensation paid to exceed the compensation limit, or the year in which an employee leaves federal service, whichever occurs first. Named executive officers appearing in the nonqualified deferred compensation table in the *Officer Compensation* above have deferred compensation in the amounts indicated therein. These amounts would have been paid to them in a lump sum or pursuant to their contract with us following their departure, had they ended their employment with us on September 30, 2020.

Mr. Corbett's employment agreement provides for deferred incentives linked in part to his performance. Mr. Corbett began accruing deferred performance-based compensation at the end of 2010. When Mr. Corbett concludes his employment with us, his deferred compensation will be paid to him in three approximately equal annual installments.

### *SUPPLEMENTAL PENSION BENEFIT*

The Governors have not authorized a supplemental pension benefit for any officer at this time.

### *SEVERANCE PAYMENT*

Ms. Brennan is scheduled to receive $291,650, to be paid in four equal installments (the first of which she received in October 2020) and transfer of ownership of the security equipment installed in her personal residence and tablet computer has occurred. Mr. Corbett is entitled to a severance payment of $230,000, in the event that we terminate his employment for any reason other than for cause or breach of contract.

### *INSURANCE BENEFIT*

The Governors have not authorized supplemental insurance benefits for any officer at this time. The insurance benefits to which all of our officers are entitled are described above.

### *OUTPLACEMENT ASSISTANCE*

The Governors have authorized professional outplacement services to all officers at a cost not to exceed $40,000.

### *ACCRUED ANNUAL LEAVE*

All of our employees are entitled to receive and accrue paid days off, known as annual leave. Upon their separation from the Postal Service, all employees, including the named executive officers, are entitled to be paid, in a lump sum, the value of all accrued annual leave. The table below shows the accrued value of the annual leave of the named executive officers as of September 30, 2020:

| Name | Value of accrued annual leave |
|---|---|
| Louis DeJoy | $ 8,170 |
| Joseph Corbett | 157,671 |
| Thomas J. Marshall | 109,339 |
| Jacqueline Krage Strako | 263,563 |
| David E. Williams Jr. | 7,396 |

## CEO PAY RATIO

In accordance with Section 953(b) of the *Dodd-Frank Wall Street Reform and Consumer Protection Act*, we are providing the ratio of the annual total compensation of Louis DeJoy, our Postmaster General and CEO, to the annual total compensation of our median employee. This ratio is based on our employee and payroll records and the methodology described below.

### *2020 PAY RATIO*

The following ratio of our Postmaster General's annual total compensation to the median employee's for 2020 is a reasonable estimate calculated in a manner consistent with applicable SEC rules.

- The combined annual total compensation of the individuals who served as our Postmaster General during the year, as reported in the *Summary Compensation Table* above, was $472,057.
- The annual total compensation of our median employee was $98,178.
- Based on this information, we estimate that the ratio of our Postmaster General's annual total compensation to that of our median employee is 5:1.

### *CALCULATING METHODOLOGY*

SEC rules for identifying the median compensated employee and calculating the pay ratio based on that employee's annual total compensation allow companies to adopt a variety of methodologies, to apply certain exclusions and to make reasonable estimates and assumptions that reflect their employee populations and compensation practices. Other comparably sized organizations have different employee populations and compensation practices and may utilize different methodologies, exclusions, estimates and assumptions in calculating their own pay ratios. Given the uniqueness of our compensation practices, most notably the caps on compensation for our executives described in *Compensation Discussion and Analysis*, the pay ratio we have reported above may significantly differ from ratios reported by comparably sized organizations.

#### Identify Median Employee

As allowed by SEC rules, we have chosen to use the same median compensated employee for 2020 that we identified for our 2018 ratio and also used for our 2019 ratio. We identified this employee at September 30, 2018, based on annual "taxable wages" (W-2 Box 5 or equivalent) from payroll data for calendar year 2017. For the purposes of this determination, "taxable wages" includes all cash compensation, including base pay, overtime pay, cash bonuses and any other taxable cash awards, before deducting retirement plan contributions or other benefits that are generally excluded from federal income tax.

We took the following steps to determine our median employee:

1. We used a database of career and non-career (both full-time and part-time) employees who received wages through our payroll system during calendar year 2017.
2. We excluded employees who were not receiving wages as of September 30, 2017, the end of our 2017 fiscal year, either because their employment ended before or began after that date.

The resulting number of employees for calendar year 2017 was 575,106 (not including our Postmaster General), and we determined from this population which employee represented the median. The number of employees in this population differed somewhat from the total number of employees we reported in the *Workforce Composition* section our Annual Report on form 10-K for the year ended September 30, 2017, as we have historically used employee complement figures, not payroll records, to report employee composition.

**Calculate 2020 Median Employee Compensation**

We took the following steps to determine our median employee's annual total compensation for 2020:

1. We obtained our median employee's gross compensation from payroll records for each pay period during 2020, and summed those amounts to determine total gross compensation for the year. Gross compensation includes base pay plus other forms of cash compensation, including overtime and bonuses, which may vary from year to year.
2. We then calculated our median employee's annual total compensation by taking the sum of annual taxable wages and any non-cash components of compensation, as applicable, including change in pension value, non-qualified deferred compensation earnings and other non-cash adjustments.

To calculate change in pension value for our median employee, we used Postal-Service specific demographic and salary growth assumptions. Given the differences in the nature of work performed, we calculated the change in pension value for our Postmaster General using government-wide demographic and salary growth assumptions. Other than this difference, we calculated annual total compensation of our median employee using the same methodology that we used to calculate annual total compensation of our most highly compensation executive officers, including our Postmaster General, as disclosed in the *Summary Compensation Table*.

## GOVERNORS COMPENSATION

The following table presents information regarding the compensation of the Governors during 2020:

| Name | Fees earned or paid in cash[1] | All other compensation | Total |
|---|---|---|---|
| Robert M. Duncan[2] | $ 42,300 | $ — | $ 42,300 |
| John McLeod Barger[3] | 42,600 | — | 42,600 |
| Ron A. Bloom[3] | 42,600 | — | 42,600 |
| Roman Martinez IV[3] | 42,600 | — | 42,600 |
| Donald L. Moak[4] | 12,283 | — | 12,283 |
| David C. Williams[5] | 25,000 | — | 25,000 |
| William D. Zollars[4] | 11,683 | — | 11,683 |

[1] Each Governor receives a basic stipend of $30,000 per year plus $300 per day for not more than 42 days of meetings each year.

[2] Governor Duncan was originally appointed in August 2018. Governor Duncan's initial term expired on December 8, 2018, and he continued to serve in a holdover year. In December 2019, Governor Duncan was reappointed for a second term which expires on December 8, 2025. Each governor may serve for up to one additional year until a successor is confirmed and appointed.

[3] Governors Barger, Bloom and Martinez were appointed in August 2019. Governor Barger's term expires on December 8, 2021, Governor Bloom's term expires on December 8, 2020, and Governor Martinez's term expires on December 8, 2024. Each governor may serve for up to one additional year until a successor is confirmed and appointed.

[4] Governors Moak and Zollars were appointed in June 2020. Governor Moak's term expires on December 8, 2022, and Governor Zollars' term expires on December 8, 2022. Each governor may serve for up to one additional year until a successor is confirmed and appointed.

[5] Governor Williams was originally appointed in August 2018. Governor Williams' term expired on December 8, 2019, and he had continued to serve in a holdover year until he resigned as a Governor effective April 30, 2020.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Not applicable. As an "independent establishment of the executive branch of the Government of the United States," we do not issue equity securities.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

### CERTAIN TRANSACTIONS

We enter into significant transactions with other government agencies, which are considered related parties for reporting purposes, as disclosed throughout this report and the financial statements. See *Item 8. Financial Statements and Supplementary Data*, *Notes to Financial Statements*, *Note 5 - Related Parties*.

### DIRECTOR INDEPENDENCE

Our Governors are appointed by the President with the advice and consent of the Senate, and are independent based on the New York Stock Exchange definition of independence.

## ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Annually, the Audit and Finance Committee reviews and pre-approves the audit services to be provided by our independent auditors. The Audit and Finance Committee must approve other specific services before the independent auditors may perform such services. The Audit and Finance Committee also has delegated to the Audit and Finance Committee Chairman pre-approval authority with respect to permitted services, provided that any pre-approval decisions must be reported to the Audit and Finance Committee at its next scheduled meeting.

Audit fees totaled approximately $8.9 million and $9.4 million for the years ended September 30, 2020, and 2019, respectively. Audit fees include fees for professional services associated with the annual financial statement audit, the reviews of our quarterly reports on Form 10-Q and testing of our internal control over financial reporting. We did not incur any other fees from our independent auditors.

## PART IV

### ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

**(a) The following documents are filed as part of this Annual Report:**

**1. Financial Statements**

The following consolidated financial statements of the United States Postal Service for each of the years ended and as of the periods noted are submitted in *Part II. Item 8. Financial Statements and Supplementary Data* of this report.



**2. Financial Statement Schedules**

None.

All other financial statement schedules have been omitted because they are not applicable or the required information is included in the United States Postal Service's financial statements or the notes thereto.

**3. Exhibits**

| | |
|---|---|
| 10.1 | Employment/Compensation Contract with Joseph Corbett, Chief Financial Officer (filed with the Postal Regulatory Commission on January 29, 2009, as Exhibit No. 10.1 to the Current Report on Form 8-K). |
| 31.1 | Certificate of United States Postal Service's Principal Executive Officer Adopted Pursuant to Section 302 of the *Sarbanes-Oxley Act of 2002*. |
| 31.2 | Certificate of United States Postal Service's Principal Financial Officer Adopted Pursuant to Section 302 of the *Sarbanes-Oxley Act of 2002*. |
| 32.1 | Certificate of United States Postal Service's Principal Executive Officer Adopted Pursuant to Section 906 of the *Sarbanes-Oxley Act of 2002*. |
| 32.2 | Certificate of United States Postal Service's Principal Financial Officer Adopted Pursuant to Section 906 of the *Sarbanes-Oxley Act of 2002*. |

***SIGNATURES***

Pursuant to the requirements of the *Postal Accountability and Enhancement Act of 2006*, the United States Postal Service has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

United States Postal Service

/s/Louis DeJoy
Louis DeJoy
Postmaster General and Chief Executive Officer

Date: November 13, 2020

/s/Joseph Corbett
Joseph Corbett
Chief Financial Officer and Executive Vice President

Date: November 13, 2020

Pursuant to the requirements of the *Postal Accountability and Enhancement Act of 2006*, this Report has been signed below by the following persons on behalf of the United States Postal Service and in the capacities indicated as of November 13, 2020.

| Signature | Title |
|---|---|
| /s/ Robert M. Duncan<br>Robert M. Duncan | Chairman, Board of Governors |
| /s/ John McLeod Barger<br>John McLeod Barger | Governor |
| /s/ Ron A. Bloom<br>Ron A. Bloom | Governor |
| /s/ Roman Martinez IV<br>Roman Martinez IV | Governor |
| /s/ Donald L. Moak<br>Donald L. Moak | Governor |
| /s/ William D. Zollars<br>William D. Zollars | Governor |
| /s/ Louis DeJoy<br>Louis DeJoy | Board Member, Postmaster General and Chief Executive Officer |
| /s/ Joseph Corbett<br>Joseph Corbett | Chief Financial Officer and Executive Vice President (Principal Financial Officer) |
| /s/ Cara M. Greene<br>Cara M. Greene | Vice President, Controller<br>(Principal Accounting Officer) |

***EXHIBIT 31.1***

CERTIFICATION PURSUANT TO RULES 13A-14(A) AND 15D-14(A) UNDER THE SECURITIES AND EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Louis DeJoy, certify that:

1. I have reviewed this Annual Report on Form 10-K of the United States Postal Service ("Postal Service");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Postal Service as of, and for, the periods presented in this report;

4. The Postal Service's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Postal Service and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Postal Service, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the Postal Service's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the Postal Service's internal control over financial reporting that occurred during the Postal Service's most recent fiscal quarter (the Postal Service's fourth fiscal quarter in the case of an Annual Report) that has materially affected, or is reasonably likely to materially affect, the Postal Service's internal control over financial reporting; and

5. The Postal Service's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Postal Service's independent registered accounting firm and the Audit and Finance Committee of the Postal Service's Board of Governors:

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Postal Service's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Postal Service's internal control over financial reporting.

| /s/Louis DeJoy | Date: November 13, 2020 |
|---|---|
| Louis DeJoy | |
| Postmaster General and Chief Executive Officer | |

***EXHIBIT 31.2***

CERTIFICATION PURSUANT TO RULES 13A-14(A) AND 15D-14(A) UNDER THE SECURITIES AND EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Joseph Corbett, certify that:

1. I have reviewed this Annual Report on Form 10-K of the United States Postal Service ("Postal Service");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Postal Service as of, and for, the periods presented in this report;

4. The Postal Service's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Postal Service and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Postal Service, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the Postal Service's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the Postal Service's internal control over financial reporting that occurred during the Postal Service's most recent fiscal quarter (the Postal Service's fourth fiscal quarter in the case of an Annual Report) that has materially affected, or is reasonably likely to materially affect, the Postal Service's internal control over financial reporting; and

5. The Postal Service's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Postal Service's independent registered accounting firm and the Audit and Finance Committee of the Postal Service's Board of Governors:

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Postal Service's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Postal Service's internal control over financial reporting.

/s/Joseph Corbett

Joseph Corbett

Chief Financial Officer and Executive Vice President

Date: November 13, 2020

***EXHIBIT 32.1***

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of the United States Postal Service ("Postal Service") on Form 10-K for the period ended September 30, 2020, (the "Report"), I, Louis DeJoy, certify, pursuant to *18 U.S.C. Section 1350*, as adopted pursuant to Section 906 of the *Sarbanes-Oxley Act of 2002* that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the *Securities Exchange Act of 1934*; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Postal Service.

| /s/Louis DeJoy | Date: November 13, 2020 |
|---|---|
| Louis DeJoy | |
| Postmaster General and Chief Executive Officer | |

***EXHIBIT 32.2***

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of the United States Postal Service ("Postal Service") on Form 10-K for the period ended September 30, 2020, (the "Report"), I, Joseph Corbett, certify, pursuant to *18 U.S.C. Section 1350*, as adopted pursuant to Section 906 of the *Sarbanes-Oxley Act of 2002* that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the *Securities Exchange Act of 1934*; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Postal Service.

| /s/Joseph Corbett | Date: November 13, 2020 |
|---|---|
| Joseph Corbett<br>Chief Financial Officer and Executive Vice President | |